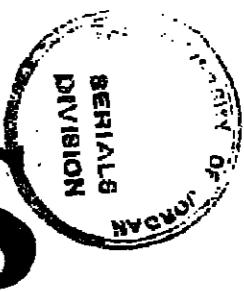


# FINANCIAL TIMES



Turkish turmoil  
A European trouble spot  
Page 16



Kobe aftermath  
The message for Japan's builders  
Technology, Page 12



State of the union  
Clinton fights back  
Page 8



Italy's neo-fascists  
Putting out the flame  
Page 2

World Business Newspaper

## Cigarette sales lift Philip Morris profits to \$1.1bn

Philip Morris, the US food and tobacco group, shrugged off anti-smoking sentiment in the US and reported a 37 per cent increase in net profits to \$1.1bn in the fourth quarter, mainly because cigarette sales in the company's domestic market continued their strong growth. Page 17

Dial government wins approval: The government of Mr Lamberto Dini, the first postwar Italian administration composed entirely of non-politicians, yesterday secured a limited mandate in a parliamentary vote of confidence only after many MPs abstained from voting. Page 16

Rocket hits markets: A missile fired from Norway triggered an international scare, with a Moscow news agency reporting that it had crossed into Russia. The news briefly cut the value of the D-Mark because Germany is Russia's biggest western trading partner. Oslo said the launch was part of a civilian research programme and the rocket went down as planned in north Norway.

Hyundai to reduce subsidies: Hyundai, South Korea's largest conglomerate, plans to cut the number of its subsidiaries from 50 to 23 through mergers and disposals within the next three years. Page 17

Dutch bank signs N Korean deal: ING Bank is to become the first foreign financial institution to establish an office in North Korea, the world's most isolated economy, after the Dutch bank signed an agreement with a North Korean partner. Page 17

Ulster settlement gives unionists veto:

UK-Irish proposals for a political settlement in Northern Ireland look set to give unionists an effective veto over the scope of executive powers to be entrusted to new all-Ireland bodies. Sir Patrick Mayhew, the Northern Ireland secretary, and Mr Dick Spring (left), the Irish foreign minister, are due to meet in London today to discuss the proposal. Page 18

Wakeham appointment prompts criticisms: The appointment of former House of Lords leader Lord Wakeham, to the board of merchant bank N.M. Rothschild at an annual salary of around £25,000 (\$35,000) has prompted fresh allegations from the Labour party that ex-ministers are exploiting their powers. Page 19

Dublin robbery nets \$4.5m: Armed robbers smashed their way into a private security depot in Dublin and stole £2m (\$4.5m) in one of Ireland's biggest robberies. The five-member gang dug through a perimeter ditch and used railway sleepers to construct a bridge into the depot.

Flu epidemic hits Kobe refugees: A flu epidemic broke out among tens of thousands of refugees from the Kobe earthquake and emergency appeals went out for doctors and nurses. \$10m for Kobe port rebuilding. Page 4

Nestlé sales decline: Nestlé, the world's largest food group, has reported a 1.3 per cent decline in sales to SF756.8m (\$44.7m) for 1994, and weaker volume in the fourth quarter. Page 19

Hong Kong bank disappoints: Bank of East Asia, Hong Kong's third largest listed bank, disappointed the colony's stock market in spite of a 36.6 per cent rise in net profit to HK\$1.54bn (\$199m) from HK\$1.1bn a year ago. Page 19

Philippines wants US military in Asia: The US should step up its military presence in south-east Asia, Roberto Romulo, the Philippines foreign secretary, said on a visit to London. Page 4

S Korea approves company expansions: South Korea will permit the country's large conglomerates to expand if the family owners who dominate the industrial groups reduce their shareholdings to less than 20 per cent. Page 16

Hostages held in El Salvador: More than 1,000 former members of El Salvador's armed forces have taken over four public buildings and are holding scores of hostages, in protest at the government's failure to honour redundancy promises. Page 8

Hungarian and Slovakian leaders meet: The prime ministers of Hungary and Slovakia said they had made important progress in resolving differences between their countries. Page 3

Sarajevo mission cancelled: Mediators from the five-nation "contact group" in Sarajevo broke off their mission to Bosnia, accusing the Bosnian Serbs of blocking the way to new peace talks.

**STOCK MARKET INDICES**

New York	London	Paris	Tokyo
Dow Jones Ind Av	FTSE 100	FTSE 100	FTSE 100
1,076.16	702.60	1,313.45	3,810.5
(+13.45)	(-0.60)	(+0.60)	(+0.60)

Europe and Far East

CAC40

DAX

FTSE 100

Nikkei

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## NEWS: EUROPE

# Moscow tightens controls on investment

By Chrystie Freeland  
in Moscow

The Russian Central Bank has warned western investors and law firms of tighter licensing controls over hard currency investments.

The bank's new code, which has already affected at least one investor, has raised fears among western investors and lawyers about foreign investment instability in Russia.

"Not everyone knows about this new policy in the Central Bank, but those who do are extremely worried," said Mr Jacky Baudon, a partner in the Moscow office of the British law

firm Freshfields. "This makes investment in Russia riskier and therefore more expensive."

Another lawyer said the new procedure appeared to be part of a trend over the past few weeks which had seen the emergence of a more hostile climate in Russia for foreign investment.

"It's like the new law on oil exports, which has actually made things more difficult for western companies," said Ms Chris Ferguson, a lawyer at the British law firm Norton Rose. "It has not been a good month for foreign investment."

In letters sent to western law firms

and banks over the past few weeks and in response to queries, the Central Bank has said it requires licences for hard currency investments by non-residents.

Particularly troubling to western investors is the fact that the bank is justifying its new procedure on the basis of a reinterpretation of existing legislation, rather than on a new law. Over the past few weeks there have been several signs that a hardline lobby, hostile to foreign investment, has emerged in the bank. The new procedure is thought to be one result of the lobby's influence.

"This is a situation in which clarity

is absent and the banking authorities benefit from that lack of clarity," Mr Baudon said. "It allows them to be flexible in their interpretation, but for foreign investors it creates a situation where you have constantly to be telephoning the Central Bank to be certain of your status."

A report produced yesterday by Norton Rose on the new procedure warned that, "given that breach of the Central Bank regulations can result in property confiscation ... until the situation is resolved, western investors should ensure existing and future arrangements comply with Central Bank regulations".

One western lawyer in Moscow said a client - an investor in a St Petersburg enterprise - had already been affected by the bank's new procedure and had been unable to receive cash dividends from shares in the enterprise because he had not received a licence for his initial investment.

Western lawyers also warn that the Central Bank might try to enforce the new procedure retroactively - a move which would put many investments made since 1991 in jeopardy. "Sure, there's a danger that the bank will try to apply this retroactively," Mr Baudon said.

## Madrid seeks to rein in spending

By Tom Burns in Madrid

Spain's finance ministry will attempt to check budget overruns at a cabinet meeting tomorrow as concern mounts over a flight by foreign investors from government debt.

However, the political effect of renewed government resolve to tackle overspending and rising debt costs continued yesterday to be blunted by domestic political issues.

A row deepened with the judiciary over alleged interior ministry involvement in death squads that fought Basque separatists 10 years ago.

The general law council, which represents the judiciary, issued a statement deplored attacks by government officials on judge Baltasar Garzon, who is investigating the death squads. He has been removed from the case pending a ruling on whether there is a conflict of interest between his role and his former post as a senior interior ministry official.

Figures issued by the Bank of Spain yesterday showed that Spanish debt held by non-residents fell by Pta196bn (\$7.3bn) to Pta2.55bn between January 13 and 20. Sustained pressure on the peseta and the prospect of continued bond market weakness have raised questions about the cost of financing more than Pta6,495bn of short-term debt maturing between February and July.

Mr Pedro Solbes, who is hoping to trim Spain's budget deficit from an estimated 6.7 per cent of gross domestic product in 1994 to 5.9 per cent this year, will also be seeking tomorrow to impose new spending cuts of Pta150bn to meet treasury estimates of additional government funding brought about by higher interest rates.

A private sector survey, however, suggests that the increase in the costs due to higher rates could be Pta400bn between 1995 and 1996, raising this year's budget deficit to 6 per cent of GDP. The increase chiefly represents the extra cost of financing short-term government debt; the yield on one-year treasury bills has risen to 10.2 per cent from 8.6 per cent last September, when the budget was drawn up.

A senior aide to Mr Solbes said yesterday that the Pta150bn figure was "the maximum cost" of additional funding requirements this year, though the markets remain sceptical. "The economic fundamentals haven't changed. It's that they are being scrutinised much more stringently," said a Madrid broker.

Market fears will not have been eased by an official admission yesterday that, in the first few weeks of this year alone, the finance ministry had identified budget overruns of Pta250bn. Mr Solbes has thus moved to bring forward to tomorrow a review of general government spending that is usually held in June.

## Tudjman turns his gaze to Serbia

By Laura Silber in Belgrade and Bruce Clark in London

Among the western diplomats struggling to bring peace to former Yugoslavia, a mood of cautious optimism has followed the gloom triggered two weeks ago by Croatia's vow to expel UN peacekeepers from its territory.

The move by Zagreb was initially read as a pledge to recover Serb-controlled areas of Croatia by force - even at the risk of triggering another all-out Serb-Croat war - and ruining prospects for Bosnian peace.

Serbian President Slobodan Milošević stoked the fears when he said this week, after meeting the peace envoy Lord Owen, that Croatia's action would "re-open the possibility of a fresh conflagration with unforeseeable consequences".

Yet despite the harsh words, diplomats see some signs of hope.

It could be that Croatian President Franjo Tuđman's decision was part of a calculated, but risky, strategy that includes the pursuit of reconciliation with Serbia.

Mr Milošević's attitude will be a key factor in determining whether the Croatian government can assert control over

its territory. If conflict re-ignites on Croatian soil and the Serbian-dominated Yugoslav army intervenes, the Croats will be outgunned. If there is no intervention from Belgrade, the result will be harder to call.

For the Croatian government, a negotiated reintegration of its territory would be infinitely better than war. Here, too, Mr Milošević is crucial: the rebel Serb politicians in Croatia who hold the key to a settlement with Zagreb are under his influence.

So Mr Tuđman has tactical reasons to pursue reconciliation with Mr Milošević, and there are signs he is doing so. According to western diplomats, Mr Tuđman warned his Serb counterpart of his move to expel the UN well in advance of the official announcement. Western capitals may have been surprised, but Belgrade was not.

Zagreb announced late last night that Mr Mate Granic, the Croatian foreign minister, would travel to Belgrade at the beginning of next month, signalling a breakthrough in relations.

If Zagreb could patch up its relations with both the rebel Serbs and Belgrade, it would take the sting from the issue of international policing for disputed areas. According to local press reports, Croat officials are floating the idea that the state border be policed by a combined Croat, Serb and international force, while diplomats suggest European Union monitors could be sent to the Serb-dominated areas now patrolled by the UN.

If these strains grow, Mr Tuđman will be vulnerable to domestic critics who suspect him of abandoning his Moslem friends in favour of pragmatic deals with the Serbs.

If Croatia succeeds in normalising relations with Belgrade, this would make Zagreb and its Bosnian Croat proxies more accommodating to the demands of Bosnian Serbs, at the expense of the Moslems.

Until recently, pressure from Washington helped keep the Croat-Moslem relationship on track. But the US administration is in danger of losing its influence over Bosnia's Moslem leaders, disappointed by the flexibility Washington has shown the Bosnian Serbs.

Since Mr Tuđman's announcement, UN officials

have reported an escalation of incidents, mostly triggered by rebel Serbs. So even if he managed to patch up one of the conflicts which have ravaged former Yugoslavia - the Serb-Croat standoff - another one, pitting Croats against Moslems, might restart.

The hints of Serb-Croat reconciliation have coincided with strains in the alliance between the Croats and Bosnian Moslems which was put together under international pressure almost a year ago.

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## EU body to speed up approval of new drugs

Pharmaceutical companies and others hope long delays are in the past, writes Daniel Green

An ambitious scheme to cut drastically the time taken for new medicines to reach Europe's doctors and patients is inaugurated today.

Officially, the drugs companies, governments, their medicines agencies and the European Commission welcome the creation of the European Medicines Evaluation Agency (EMEA). Privately, many are apprehensive.

There is already evidence that the Commission's newest agency will have a tough time.

Until now, a drugs company that wanted to launch a new drug across the \$50bn a year European drugs market has had to submit applications to each of the 15 European Union medicines agencies.

Some, such as the UK and France, often reached a decision in less than a year. Others, such as in the biggest market, Germany, could take five.

Mr Fernand Sauer, the EMEA's French executive director, says that his London-based agency will make a scientific recommendation on a new drug within 210 days. The Commission has a further 90 days for translations and certification. Its decision is binding on all member states.

Using the EMEA is optional for the next three years, except for biotechnology drugs. At the end of the transitional period, almost all new medicines must be submitted either directly to

generated by each new product launched.

Companies will be relieved of the burden of submitting 15 separate national applications for a drug approval. Mr Nick Bosanquet, professor of health policy at Imperial College London, estimates that each company will need up to 90 fewer staff as a result.

With the creation of the EMEA, the Commission has put in place one of the final parts of its single market programme to reduce trade barriers within the EU.

However, some drugs companies fear the EMEA may become a European version of the US Food and Drug Administration (FDA) which has been criticised for its bureaucracy and slowness.

Mr Sauer is sensitive to these fears. He says that even in the EMEA's centralised process, rapid approval of expensive new drugs could mean higher drug costs.

At the same time, national medicines agencies do not want to be shown up as inefficient by the EMEA.

Even Germany has found an unexpected turn of speed, approving a Wellcome drug, Panorex, in the last week of 1994, just five months after its submission.

Meanwhile, in Brussels, the amount of cash earmarked for the agency has already been cut once, in November.

Perhaps it is not surprising that Mr Sauer is already feeling beleaguered. "Sometimes I think that my only friends are the heads of the other agencies," he says.

But he knows his adversaries and allies. At 47, he is a trained pharmacist who switched to

Member states have plenty of

motives to engage in such tactics. At a time when they are trying to control health budgets, rapid approval of expensive new drugs could mean higher drug costs.

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Member states have already agreed that basic voice telecommunications should be opened to competition by January 1, 1998, with five-year delays allowed for Spain, Portugal, Ireland and Greece and a two-year delay for Luxembourg.

Liberalisers argue that the reduction in costs resulting from competition will benefit all Europe's citizens and that

## Call to punish EU club's rule-breakers

By Lionel Barber in Brussels

Member states of the European Union which opt out of common policies or refuse to apply club rules should be relegated to second-class membership or face sanctions, according to a report by a leading Brussels think-tank on the 1996 intergovernmental conference (IGC).

The Centre for European Policy Studies proposals mark an attempt to draw a line in the sand between the Croats and Bosnian Moslems which was put together under international pressure almost a year ago.

If these strains grow, Mr Tuđman will be vulnerable to domestic critics who suspect him of abandoning his Moslem friends in favour of pragmatic deals with the Serbs.

If Croatia succeeds in normalising relations with Belgrade, this would make Zagreb and its Bosnian Croat proxies more accommodating to the demands of Bosnian Serbs, at the expense of the Moslems.

Until recently, pressure from Washington helped keep the Croat-Moslem relationship on track. But the US administration is in danger of losing its influence over Bosnia's Moslem leaders, disappointed by the flexibility Washington has shown the Bosnian Serbs.

Since Mr Tuđman's announcement, UN officials have reported an escalation of incidents, mostly triggered by rebel Serbs. So even if he managed to patch up one of the conflicts which have ravaged former Yugoslavia - the Serb-Croat standoff - another one, pitting Croats against Moslems, might restart.

They also reflect a need in Brussels that the Union needs to get tougher with countries which either fail to apply EU law, or engage in unilateral actions such as Greece's trade embargo against Macedonia.

The report's authors, Mr Peter Ludlow of CEPs, and Mr Niels Erboll, who retired last year as secretary-general of the European Council - argues that the case for stricter rules and streamlined procedures has strengthened at the 15-member Union prepares for its next round of enlargement.

They say that the chief task of EU governments at the IGC is to review the Maastricht treaty to create a new institutional framework which will allow the Union to operate with as many as 31 members.

Among their proposals are:

• Greater use of majority voting in the fledgling common security and foreign policy.

• Preparations for "1996 and a larger European Union". CEPs, Rue Didei 31, Brussels 1000. Tel: +32 2 515 6000.

They conclude that the EU seems certain to retain its hybrid nature, a cross between an association of nation states and a quasi-federation. It is also pessimistic about the prospects for greater co-operation on judicial and immigration issues, a German priority in 1996.

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The arguments over universal service are a diversion. But in an attempt to appease the member states with highly protected telecoms industries, the paper devotes much attention to ensuring universal service, defined as "access to a minimum service of specified quality to all users at an affordable price based on the principle of universality, equality, and continuity".

It suggests this could be achieved through a fund, financed by telecoms operators who were not providing a universal service themselves.

According to Mr Jean-Eric de Cockbore, head of telecoms regulatory issues, the Commission addresses the creation of a solid regulatory framework within which new companies will be free to compete against traditional state operators while preserving a "universal service".

Many member states attach great importance to guaranteed access, fearing that poorer citizens, or people living in remote areas, will lose out when the sector is still tightly controlled in virtually all EU states - is shaken up.

The document - the second part of the Commission's green paper on the liberalisation of telecommunications infrastructure and cable TV networks - follows an earlier paper setting out the general principles and proposed timetable for liberalisation.

Member states have already agreed that basic voice telecommunications should be opened to competition by January 1, 1998, with five-year delays allowed for Spain, Portugal, Ireland and Greece and a two-year delay for Luxembourg.

The paper also tackles the issue of licensing, recognising that granting licences for telecommunications networks and services must remain a matter for national regulatory authorities. But it says an overall framework setting out general principles, and which strikes a balance between too much regulation and reasonable safeguards, is also required.

The Commission intends to complete its consultations during the current French presidency which lasts until June and to produce, by the end of the year, a package of measures for widespread reform of the regulatory environment.

Fini snuffs out fascist flame to try to boost party

Robert Graham reports on the National Alliance's quest for a new identity

The National Alliance movement of Mr Silvio Berlusconi.

Having won 5.6 per cent of the national vote in elections from the early 1980s onwards, the far right emerged as a formidable force in last year's general elections after more than doubling its vote.

The latest opinion polls give the MSI/AN some 17 per cent of voter support, making it one of the three largest parties. With some 400,000 members, the party is second only to the PDS in terms of organisation. The strongholds of the MSI/AN are around Rome and to the south where it has taken over much of the former Christian Democracy's base, especially in areas of high unemployment. Mr Fini stands to be a main beneficiary of any slip in the fortunes of

any break-up of Forza Italia

To punish  
club's  
e-breaker

## NEWS: EUROPE

## EUROPEAN NEWS DIGEST

## Lang quits the race for Elysée

Mr Jack Lang, the former French culture minister, yesterday pulled out of the contest to win the French Socialist party's nomination as presidential candidate. He threw his support behind Mr Henri Emmanuelle, the party leader, whose chances of beating Mr Lionel Jospin for the nomination vote next week are thus strengthened.

Ironically, Mr Lang's decision to pull out of the race on the closing day for nominations coincided with an opinion poll suggesting that of the three Socialists' contenders only the flamboyant former culture minister might do well enough in the first round of presidential voting to make it into the final run-off. But Mr Lang, who in declaring his candidacy last week had already hinted he might desist in favour of Mr Emmanuelle, said last night "a three-way clash is too damaging to the left". Fears that the Socialist party might be about to self-destruct completely at its February 5 nominating convention prompted Ms Sérgeline Royal to resign on Tuesday as president of the party's national council after her calls for unity fell on deaf ears. David Buchan, Paris

### Anger at French education plan

French students and teachers reacted angrily yesterday to details of an official report which calls for radical reforms to the higher education system. Accounts of the recommendations in the report, which has not yet been officially released, said it called for the replacement of student grants with loans and increases in tuition fees. The report, which was commissioned by Mr François Fillon, higher education minister, was written by a panel chaired by Mr Daniel Laurent, head of Marnes La Vallée university outside Paris. It does not represent official government policy. It calls for greater regionalisation of the centralised higher education system, and the introduction of sponsorship from industry. It also suggests that there should be greater work experience and more vocational and technology elements within the curriculum. Teachers and students unions, which are preparing for a day of protest at education policy in early February, were outspoken in their criticisms. Mr Roger-Gérard Schwartzberg, former minister of universities, called the report "a manifesto for inequality" driven by "ultra-liberal logic". He said French universities did not need "Americanising" but rather "democratising to increase equality of opportunity". Andrew Jack, Paris

### Major gives Chechnya warning

Mr John Major, the UK prime minister, yesterday warned Russia's president Boris Yeltsin that international patience with military action against nationalist rebels in Chechnya may be running out. Mr Major called for an end to the fighting in a private letter to Mr Yeltsin intended to underline UK concern about the handling of the military campaign and the suffering of civilians in the rebel republic. Downing Street did not release the text of the letter. However, it was understood to reflect Monday's communiqué from European Union foreign ministers in Brussels, which condemned violations of human rights in Chechnya. In line with the EU decision, the letter made no direct link with the continuation of western aid to Russia. But Mr Major was said to be putting Russia "on notice" that the issue may arise unless the fighting ceases quickly. Kevin Brown, London

### Kohl begins key talks on jobs

Chancellor Helmut Kohl last night began critical talks with German trade unions and industry leaders, hoping to persuade them to accept a four-day working week and other measures which would spread the available work among more people and improve prospects for the 1.1m long-term unemployed. The talks, which have been planned for months, mark the most important meeting of employers and employees at a time when Germany is still fighting to cut its high labour costs. However, it remained unclear how successful Mr Kohl would be in persuading the unions to extend the working week into Saturday, a subject they have traditionally refused to discuss. The meeting takes place at a time when both sides are still at odds over wage rises. Michael Lindemann, Bonn

### Hungary, Slovakia improve ties

The prime ministers of Hungary and Slovakia said yesterday they had made important progress in resolving differences between their neighbouring countries and hoped to reach an agreement on a much delayed friendship treaty by the end of March. Mr Vladimir Mečiar, the Slovak prime minister, said he was confident they could put the past behind them and develop good relations in future. Mr Mečiar added that the two countries agreed to support each other in their efforts to join the EU. Relations have been strained in the past over the treatment of the ethnic-Hungarian minority in Slovakia and the controversial Gabčíkovo hydro-electric dam on the river Danube between the countries. Mr Gyula Horn, the Hungarian prime minister, said Slovakia had agreed to guarantee minority rights to western European standards and to sign a separate agreement on minorities. Virginia Marsh, Budapest

### ECONOMIC WATCH

#### Portuguese trade deficit rises

Portugal's monthly trade deficit increased by £8.5bn (£33.5m) in October to £83.5bn, according to preliminary results released yesterday by the National Statistics Institute, the INE. Imports rose £15.5bn from £83.5bn to £83.4bn while exports increased £6.9bn from £22.5bn to £24.4bn. However, the monthly trade deficit with the European Union fell £6.8bn to £83.5bn. The total January-October deficit was £15.5bn higher at £118.05bn, a 1.3 per cent increase on January-October 1993. Meanwhile, the deficit with the EU declined from £75.3bn to £71.7bn, a fall of £3.3bn. Non-EU imports of oil, Japanese consumer goods and US food products all rose, but there was a vigorous EU export performance from textile and wood product sectors.

■ The Dutch consumer confidence index rose 7 points in January to a neutral level of -1, after falling 14 points in the last quarter of 1994.

Denmark's wholesale price index was up 0.2 per cent in December month-on-month, an increase of 2.5 per cent year-on-year.

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THE BUSINESS TO BUSINESS MAGAZINE FOR CHINA

# Swedish deficit cut 'will save welfare'

It's my social democratic duty, finance minister tells Hugh Carnegy and Christopher Brown-Humes

**EUROPEAN INTERVIEW** of his introduced political steel when asked about industrial leaders' criticism of his attempts to cut the country's big budget deficit.

"I have inherited this [deficit] from the industry federation and their political allies," he declared, referring to the right-centre coalition toppled by Mr Persson's Social Democratic party in the general election last September.

He brushes aside the complaint, most audibly sounded by eight top industrialists this week in a letter to Mr Ingvar Carlsson, the prime minister, that the government's policies threaten Sweden's economic future by placing too much emphasis on tax increases, not cutting deeply enough into the expensive welfare state and not addressing issues such as labour market reforms.

"They have tried their policy, because they were in fact in power for three years," Mr Persson said in an interview on the day the industrialists – led by the chiefs of Volvo, Electrolux and Ericsson – were discussing their criticisms with



Göran Persson: does not rule out further cuts

Mr Carlsson. "We have now one important structural reform in the Swedish economy to handle and that is to fight the deficit," said Mr Persson. "There you have the most crucial question. If you can't

handle that structural question all the other questions will be impossible to tackle."

He made clear that, unlike the strategy urged on him by many in the private sector, his emphasis was on the need to

tackle the deficit in order to save the welfare state, rather than the other way around.

"If we can't handle the state finances the welfare society will die and the welfare society is our baby. We are not going to kill our own baby. It's my task to lead that struggle against this deficit to maintain the core of the welfare society. It's an extremely important social democratic political task."

Nevertheless, the intervention of the industrial leaders was ill-timed for Mr Persson. He is due in London today as part of a campaign to persuade sceptical financial markets that a series of measures taken by the government – most recently in its 1993-96 budget proposals ended this month – will achieve his target of stabilising the public debt in 1997.

Persuading the markets is a vital part of the equation because worries about the debt – about 90 per cent of gross national product and rising – have led to Swedish long-term interest rates of around 11 per cent, more than 3 percentage points above benchmark German levels. Getting them down is crucial to cutting government borrowing costs and helping to spur a so far modest economic recovery. Measures

taken by Mr Persson and the previous government will over four years "strengthen" the budget by Skr14bn (£9.7bn), wrestling down last year's deficit of some Skr200bn, or 1.3 per cent of GNP, to 7 per cent of GNP in 1997.

But critics say spending cuts introduced by the Social Democrats of almost Skr55bn are at least Skr10bn short of the required amount; they also say the Skr40bn in tax increases brought in since the election will squeeze growth.

Mr Persson did not rule out having to make further cuts to solve what he called "a deep crisis" that must be overcome before the economic cycle turns down. "I am quite confident, but you can never be sure. And if I haven't done enough, I will have to do more," he said.

I must convince every Swede of the necessity of controlling the debt, he added, remarking frankly that the country had suffered from not delivering in the past what it promised in fiscal and monetary policy. "We have had enough in Sweden of seminars about what we ought to do. We have never done it. I am now going to do it," he insisted.

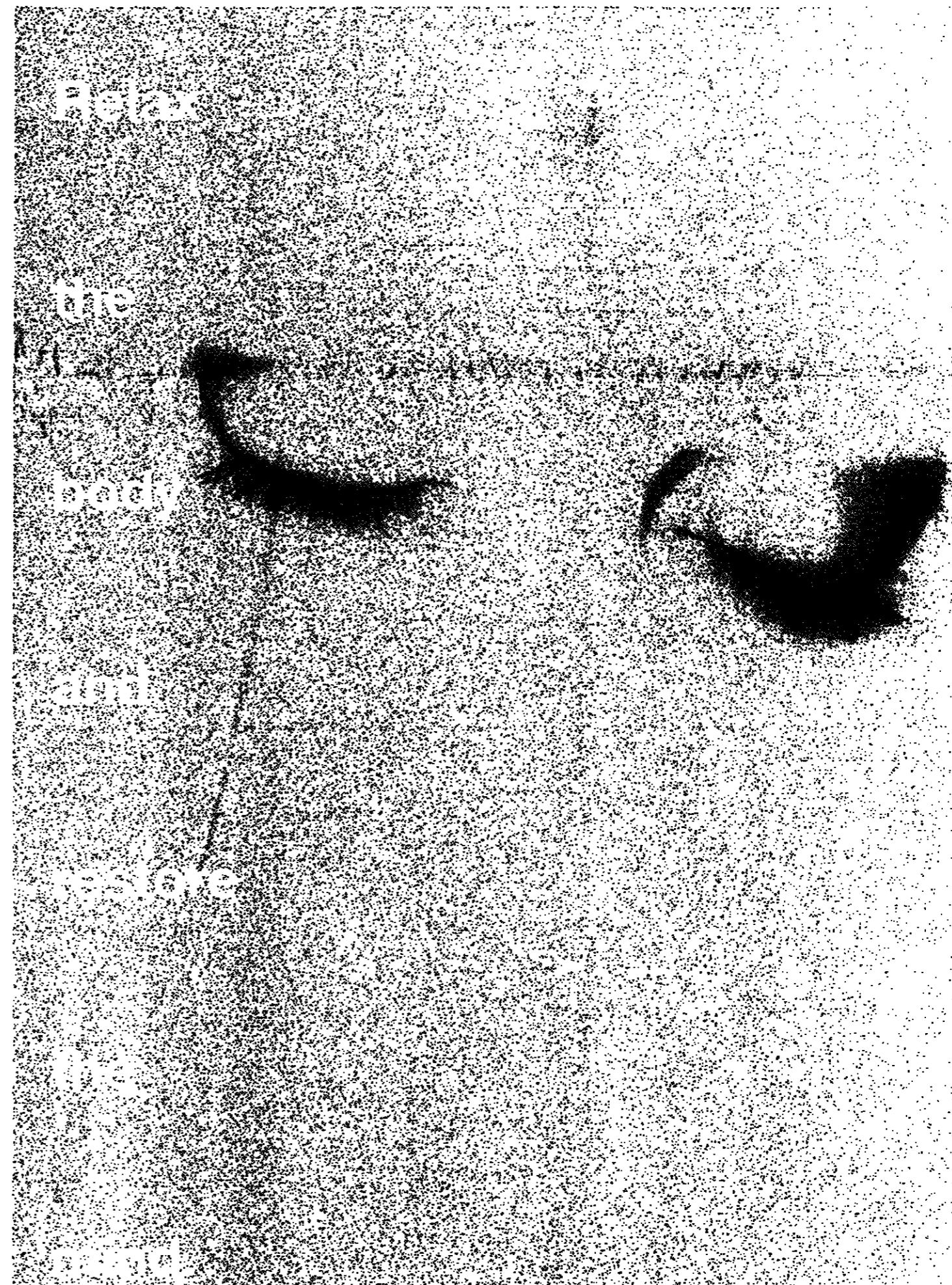
The minister did not deny that the public sector had got

out of hand in Sweden, where public spending accounts for 70 per cent of GNP, the highest level among industrialised countries. But he declined to set a target for where the balance between the public and private sector should lie.

That may add to the discontents of industry and the financial markets. But defending the public sector is an important element in the difficult task of persuading the pro-welfare Social Democratic rank-and-file, including the powerful trade unions, to accept spending cuts.

As a Social Democratic finance minister, delivering as much as he has already promised is tough enough without having to contemplate more spending cuts. And in his unspoken but clear ambition to succeed Mr Carlsson as party leader and prime minister, the Social Democratic constituency matters much more to Mr Persson than the leaders of international corporations or bond dealers in London.

"I am taking very big political risks," he said. "It is not possible to handle this situation without taking those risks. And of course if you fail to reach the target, disappointment is too weak a word. I am standing or failing with it."



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## NEWS: ASIA-PACIFIC

# Kobe gets down to the rebuilding

Gerard Baker reports on the surprising degree of progress made

**A**s the efforts of the rescue teams yield the last few victims of Kobe's earthquake, the city is beginning the daunting task of rebuilding. While the initial response of the authorities to the catastrophe has been widely criticised as dilatory, there were signs yesterday that the process of reconstruction is being pursued with vigour.

Most striking progress is the demolition of the toppled section of road that has become almost an icon of Kobe's destruction. Yesterday, 40 heavy earth-moving machines hacked away at the remaining section of road and pillars in the crumpled 400-metre stretch of the Hanshin Expressway. The work is expected to be completed in a week.

Less certain is how long it will take to rebuild. The very design basis of Japanese elevated roads is under review as a result of the earthquake, and it could be years before final decisions on road construction are reached. Meanwhile Kobe will have to cope with having its main routes at well below full capacity.

The Hanshin is just one of dozens of main thoroughfares that have become impassable, blocking the region's arteries. The journey from Osaka to Kobe by road, a distance of 30 miles, takes about three-and-a-



Two high school girls yesterday offering prayers amid the rubble where a classmate died in Kobe's earthquake

half hours. Even that is an improvement on last week, when it could take six hours.

One factor increasing the congestion is the flood of volunteers commuting daily to the Kobe area with supplies of food, water and clothing for the city's 300,000 homeless. As the scale of the tragedy became

gradually clearer last week, the numbers offering help swelled to astonishing proportions. A daily throng of thousands takes whatever transport can to assist in the rebuilding.

Substantial progress has also been made in restoring utilities. By late yesterday, it was

estimated that more than 85 per cent of homes had electricity restored, and most now have some form of access to water. But the degree of dislocation to gas supplies remains considerable.

Mr Hiroshi Kishimoto, of Tenkoku Eikka Gas, a gas maintenance company, said many mains pipes had been punctured, leaving an estimated 800,000 people still without gas. "The gas lines are often under the main roads, so this is making the transport problems much worse."

Rail links are strengthening daily. Yesterday, West Japan Railway Company (JR West) opened another station on the Osaka-Kobe line, a day ahead of schedule. Ashiya station was virtually destroyed in the quake but JR engineers, battling since the first day to reopen the line, have achieved a rate of one station a day.

According to Mr Masaru Tamura, president of the Kobe branch of JR West, and one of those who have not returned home since the disaster, that rate will be impossible to maintain from now on.

The work done so far has been basic repairs to the tracks and ground. But for a 30-mile stretch either side of the centre of Kobe, there are countless bridge collapses and landslides.

"We cannot even guess how

long this will take," he says. "Worse hit is the Shinkansen 'bullet train' line. The tracks, specially built for the super-express trains, are carried on elevated rails. In dozens of places, the supports for the line have crumbled.

Mr Tamura says they will take four to five months to repair. But to JR's discomfiture, it was discovered this week that inside several of these pillars were large wooden blocks, thought to have been concreted in by accident when the tracks were laid 30 years ago. Any worries over its strength will damage the bullet train's prestige; there has never been a fatality on a Shinkansen, which JR attributes to building standards it claims are the highest in the world.

Kobe's progress so far has been impressive, thanks to both official and volunteer efforts. But as more of the preliminary work is completed, the task facing the rebuilders looks larger and the implications are becoming clearer.

Until the spring at the earliest, one of the country's more important lines of communication has a gaping hole in it, and the movement of people and supplies along it is at a near-standstill.

See Technology Page: Japan's confidence rocked, Page 12

## New port likely to cost \$10bn

By Michio Nakamoto in Tokyo

The rebuilding of Kobe's famous port, destroyed by last week's earthquake, is likely to cost about Y1,000bn (\$10bn) and will take several years to complete, city authorities said.

The port's more than 20 wharves have been made unusable by the quake and "to return to its former state is likely to take more than three years," an official at the port authority's construction division said yesterday.

City officials are concerned that unless restoration work is carried out swiftly, Kobe, which has a long history as a base for ships travelling between east and west, may never regain its status as Japan's leading port.

"Shipping companies can switch to any other port. There is no guarantee they will come back," a Kobe city official said.

Nippon Yusen, Japan's largest shipping company, said it has had to turn down shipments to and from Kobe for the time being. Shipping companies forced to re-route shipments from Kobe do not know yet when they will be able to return there.

The cost to Kobe City of rebuilding port facilities is estimated at Y940bn but the cost to the private sector, which has lost many warehouses and cargo handling facilities, will add much more to the final amount.

Kobe is set to lose nearly 40 per cent of its overall tax revenues which were derived from port and related activities.

The city has sent divers down to survey the damage to wharves, and has started to put together a plan for reconstruction. "We must rebuild as soon as possible so shipping activity can resume swiftly. If one company can come back, other shipping companies will see that happening and take their opportunity to return," an official said.

### ASIA-PACIFIC NEWS DIGEST

## US urged to step up SE Asia force

The US government should step up its military presence in south-east Asia, Mr Roberto Romulo, the Philippine foreign secretary, said yesterday. On a visit to London he said Washington should play a greater leadership role in the South China Sea to help stabilise a region which appears to be the main driving force behind a wider east Asian arms race.

"The Philippines believes that the US presence in south-east Asia must be enhanced not because it is the constable of the world but because it must protect its sea links and vital commercial interests." The US, which is the largest overseas investor in the Philippines, has lacked a permanent military base in south-east Asia since 1992 after the Philippine Senate voted to end leases on the Clark air base and the Subic Bay naval base near Manila. Since then Thailand has rejected a US request to set up a floating military base in the Gulf of Thailand while Malaysia has hardened its opposition to an American security presence in the region. Concern exists elsewhere, however, about China's blue-water naval ambitions. Edward Luce, London

### Chinese state sector withers

The share of Chinese industrial output by the state-owned sector continued to shrink last year to 40 per cent compared with 42 per cent the year before, according to the State Statistical Bureau. The state's share of gross value of industrial output (GVIO) has halved since 1978, the year economic liberalisation was launched. Mr Guo Xiaochun, the bureau's chief economist, said the gross indebtedness among state-owned enterprises grew 74 per cent last year to Yn500bn (\$24.7bn). He blamed the credit squeeze and inflation. Inventories had also ballooned. The government had reduced, however, its direct financial assistance to the state sector from Yn100bn in 1992 to Yn50bn last year. Tony Walker, Beijing

### Land auction boost for HK

Hong Kong's nervous financial markets took heart yesterday when the colony's first big government land auction for the year produced a better than expected result. Two of the three sites at auction found buyers at prices around or slightly above of expectations, although lower than those achieved in the past. A third site, which was not expected to sell, was withdrawn. The Hang Seng index of leading stocks closed at 7,240.72 - up 217.22, or 3.10 per cent.

A residential site in San Tin, a middle class suburb in the New Territories, was sold for HK\$17.7m (\$2.14m) to a private developer. An industrial site on the island of Ap Lei Chau was taken by Paliberg, a local developer, for HK\$23.2m. Mr Tim Mills, the government auctioneer, said: "Today's result shows there is still some strength in the market." That strength will be tested as the government seeks to auction a further 20 sites before the end of its financial year in March. Simon Holberton, Hong Kong

### Easier time for Australian rates

Upward pressure on Australian interest rates eased yesterday after the release of official figures showing that the consumer price index rose in the December quarter at an annualised rate of 2.5 per cent. While this is the strongest since September 1981, it is at the bottom of the Reserve Bank's target rate. The increase was due largely to higher mortgage charges. Mr Ralph Willis, federal treasurer, said the underlying rate of inflation, at 2.1 per cent during the December quarter, "is not placing increased pressure on interest rates at this stage". During the last four months of 1994, the Reserve Bank lifted official interest rates three times, pushing rates up from 4.75 per cent in August to the current 7.5 per cent. Emma Tugnait, Melbourne

### Goa protests turn violent

India has deployed security forces in the tourist state of Goa after protests against the construction of a nylon factory turned violent and one man was killed. The rioting began on Monday in a flare-up of a five-year-old protest movement launched by villagers and environmentalists opposing the plant, which is 45 per cent owned by Du Pont, the US chemicals group.

Mr Pratapsinh Rane, Goa's chief minister, said protest intensified after Thapar Du Pont, the factory's owner, decided to speed up the construction of the \$200m (\$128m) plant last November. Environmental activists, supported by farmers and villagers, oppose a plant they say would have "disastrous effects" on horticulture and fishing. Goa's main industries apart from tourism. They say it would release polluting effluents into Goa's two main rivers. Reuter, Bombay

### WORLD TRADE NEWS DIGEST

## Swiss lift watch exports by 4.9%

The value of Swiss watch industry exports rose 4.9 per cent to SF7.96bn (\$6.3bn) last year. The volume of exports of complete watches fell 1.2 per cent to 37.5m pieces but rose 5.2 per cent in value to SF6.9bn, due to a boom in watches made with precious metals. Mechanical watch exports rose 6.6 per cent in value to SF3.45bn in spite of a 10.6 per cent slide in volume to 6.2m units. Exports of electronic models rose 2 per cent in value to 39.6m units. Ian Rodger, Zurich

### Malaysia warns over rail deal

Malaysia's government has warned foreign and local contractors they face severe financial penalties if a M\$1.5m (\$600m) rail project is not finished on time. Prime Minister Mahathir Mohamad (26) said he was concerned about delays in completing a 150km rail electrification and double tracking scheme round Kuala Lumpur. Blame is focused mainly on Ansaldo Transporti of Italy and the local Sapura Holdings group which are carrying out signalling work. The project is a year behind schedule. Kieran Cooke, Kuala Lumpur

Ansaldo, part of the Italian state engineering group Finmeccanica, has won a L\$80m (\$50.3m) order from the Indonesian electricity company to build the third 55MW unit of a geothermal electricity plant on the island of Java. Ansaldo built the first two units of the plant, which is fed by hot water wells and which will eventually generate up to 165MW of electricity. The financial package includes credits from the Italian and Indonesian governments. Andrew Hill, Milan

Agfa-Gevaert, the film-making subsidiary of the chemicals company Beyer, will create a joint venture to pack colour and X-ray films in China. Agfa will put up 74 per cent of the \$100m starting capital and the remaining 26 per cent will be held by Shanghai. About DM23m (\$15.2m) will be invested to equip the plant, where output is scheduled to start early in 1996. Michael Lindemann, Bonn

## NEWS: WORLD TRADE

## Norway in French gas deal

By William Barnes in Bangkok

The Bank of Thailand has sought to reassure foreign investors its current account deficit was both fundable and useful following sharp selling pressure on the baht inspired by Mexico's economic crisis.

Mr Bandit Nittayaworn, the central bank's deputy director of economic research, argues that "the current account deficit reflects a strengthening of the economy, not a weakening. The rate of capital formation has been growing faster than the economy [more than 9 per cent]

against more than 8 per cent] for the past four years".

The baht was one of several Asian currencies to feel the "Mexican wave" but it is vulnerable to changing sentiment against emerging economies because like Mexico, Thailand runs a hefty current account deficit and has increasingly relied on short-term foreign capital to fund it.

The baht was hurt by rumours it was a devaluation candidate, but has now stabilised at about previous levels of Bt25 to the dollar after touching Bt26 in mid-January.

The Bangkok stock market remains near its 1984-95 lows, and Thai financial authorities this week hastened approval for two open-ended mutual funds of around Bt15bn each as a step to boost equity prices. The market has taken a firmer tone in the past two days.

Thailand's current account deficit is expected by the central bank to have been 5.6-6.9 per cent of gross domestic product in 1994 and to be a maximum 5.8 per cent this year, higher than most of its rivals in the region. Yet the deficit has fallen since 1990

when it reached 8.5 per cent of GDP following a sudden acceleration in the economy that started in 1988.

Mr Bandit points out that Thailand has a solid long-term track record of being able to cope with high growth and current account deficits. "The position is clearly sustainable. The inward capital flow is expanding capacity and leading to higher exports," Mr Bandit says. He points out that Standard and Poor's, the credit rating agency, recently upgraded Thailand's rating from A minus to A.

Foreign investment has not been used to support declining domestic savings: the savings ratio has increased from 32.6 per cent in 1990 to 34.2 per cent in 1994.

The exchange rate is backed by foreign currency reserves with adequate import cover and roughly twice the value of short-term foreign capital in the country, estimated at \$15bn.

The central bank reckons its forecast 6.8 per cent economic growth this year is "very safe". Neither the Bank of Thailand nor the finance ministry would like to see again the double

digit growth rates that ran from 1988 to 1990 until overheating was halted by the Gulf War and the February 1991 military coup.

Mr Bandit says growth levels should flatten out into a "long-term equilibrium growth rate of perhaps 7.8 per cent" once the present phase of rapid capital formation has passed.

The government was moving to sustain progress by adopting a more supportive role rather than being a mere market regulator. "The economic momentum is there - the chemistry works."

### Electronics groups hold discussions on averting digital video disc technology war

## Sony and Philips in Toshiba DVD talks

By Alice Rawsthorn

Sony and Philips, the consumer electronics companies, are beginning top-level discussions with Toshiba, one of their chief competitors, to try to agree a common strategy for the development of digital video discs (DVD).

Toshiba earlier this week dealt a blow to the hopes of Sony and Philips of establishing their version of the video disc as an industry standard by announcing that it had secured the support of Matsushita, the world's largest electronics group, and a number of other companies for its rival disc.

The video disc, which combines the functions of video cassettes and audio compact discs, is seen as one of the most promising new electronic products. However, like any other electronics product, it can realise its full

potential only if the entire industry backs a standard format.

Sony and Philips have now decided to open discussions with Toshiba to try to avert a repetition of the damaging video war in the 1970s, when Sony failed to establish its Betamax format as the industry standard against Matsushita's VHS.

The two companies are organising informal meetings in Tokyo at which senior executives and engineers will meet their Toshiba counterparts to examine the

rival technology and to try to agree a common line on developing video discs.

One option would be to try to incorporate some elements of the Sony/Philips disc into the Toshiba version. However this could prove technically difficult. Also, Toshiba is thought unlikely to concede much because of the strength of its negotiating position.

The most likely outcome is that Sony and Philips will attempt to negotiate favourable financial terms to abandon their own disc and adopt Toshiba's format.

The usual practice in the electronics industry is for the inventor of a standard product to negotiate royalty terms to license its technology to other companies. These royalties can yield substantial sums. Sony and Philips are believed to receive 3 US cents for each audio-CD made worldwide, which would have been worth

a total of over \$40m in 1993 alone.

However, the terms of the royalty payments vary depending on criteria such as the value of their own technology to the product's development. Matsushita, for instance, pays relatively low royalties to Sony and Philips for audio-CDs as some of its patents are used in the product.

Sony and Philips now face the challenge of negotiating favourable terms with Toshiba. Their main hope of winning concessions is that some of their audio-CD technology will certainly be used in the latter's video disc.

However, they may reconsider their decision to compromise if they cannot secure acceptable terms from Toshiba, raising the risk of plunging the electronics industry into another format war.

## Europeans prepare plans for digital radio

By Frances Williams in Geneva and Alice Rawsthorn in London

European broadcasters are joining forces with the electronics industry to finalise plans for the launch of digital radio, viewed as the most important development in radio technology since the invention of the transistor.

Digital radio produces a clear sound of the same quality as compact disc without crackles or interference, even on mobile receivers such as car radios.

It is expected eventually to replace existing analogue services and should act as a significant catalyst for Eu-

ope's DM400m (\$267m) radio market. The first experimental digital services are expected to begin broadcasting this autumn in the UK, France, Germany, Sweden and the Netherlands. The electronics industry hopes by then to have the first digital radios ready for sale.

The broadcasting and electronic sectors have for some time been collaborating on the development of digital radio technology. The European Broadcasting Union has now formed a special forum to co-ordinate the final stage of the launch. It has scheduled its first meeting in Geneva for late March.

The last catalyst for radio receiver sales was the rapid expansion of per-

sonal stereos with radio attachments in the mid-1980s. The European market has been dormant since the late 1980s. Sony estimates that some fm radio receivers (including those incorporated in other electronics products) were sold last year in the UK alone.

Many European consumers are expected to replace their existing receivers once digital radio comes on stream. The main beneficiary is expected to be Sony, the world's largest radio receiver manufacturer, together with Germany's Grundig and Philips of the Netherlands, respectively second and third in the European market.

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## NEWS: INTERNATIONAL

## FIS chief endorses peace platform

By Rouda Khalaf in London

Mr Ali Benhadj, the more radical of the two leaders of Algeria's banned Islamic Salvation Front (FIS), has endorsed a peace platform agreed by the country's opposition parties in Rome 10 days ago.

In an eight-page letter, received by the London-based daily *Al Sharq Al Awat* and France's *Liberation*, Mr Benhadj says the Rome declaration proved that "the problem is not with the parties or the people but between legitimate parties and a government that has lost all legitimacy".

The Rome declaration proposes negotiations with the army-backed regime leading to a coalition government and new elections.

It has been vehemently rejected by both the army-backed government and by the Armed Islamic Group (GIA), the radical grouping of Islamist extremists.

Although the declaration was signed by two FIS leaders in exile - Mr Bahab Rebir and Mr Anwar Haddam - Mr Benhadj's letter lends it greater legitimacy. He is the only FIS leader who can still muster support among hardline Islamists.

By insisting that "the opposition can reach a common programme and work hard to implement it for the benefit of the people," Mr Benhadj, who not long ago called democracy heresy and told Islamist extremists that if freed he would join their armed struggle, seems to be attempting to shift the focus of the Algerian crisis to the political arena.

It also marks a tactical attempt to regain political ground lost to the armed groups.

In a surprise move for a man known for his enmity for France, he cites the French constitution to support his view that people have the right to fight a government that usurps their rights.

# Israel to build more West Bank homes for settlers

By Julian Ozanne in Jerusalem

Israel yesterday said it would build hundreds of new homes for Jewish settlers in the Israeli-occupied West Bank despite Palestinian warnings it could further threaten the fragile Israeli-Palestinian peace process.

The decision, by the ministerial committee on settlements, will exacerbate Arab-Jewish tension and cut hopes for peace talks, which have been virtually suspended by Israel

since last Sunday's Islamic suicide bombing left 19 Israelis dead.

Mr Yitzhak Rabin, housing minister, said the committee had decided to sell 800 existing housing units in the settlement of Maale Adumim near Jerusalem and would begin work on a further 1,000 units. The minister also said 350 already constructed homes in Givat Ze'ev would be sold and up to 800 houses could be built privately. However, the committee, apparently at the insistence of left-wing ministers, said it would slow the pace at which settlers could move into the homes.

The decision came as Mr Avraham Shochat, finance minister, acknowledged that the Labour-led government was building in the occupied territories at a pace three times faster than the previous right-wing Likud administration, despite promises to the electorate and the US to freeze new settlement construction.

Mr Yassir Arafat, chairman of the

Palestine Liberation Organisation, said yesterday he understood Israel and the PLO had already agreed at a meeting last week that there would be no expansion in settlements or a rise in the number of Jewish settlers living in the West Bank.

Mr Arafat made the remarks in Jordan as he prepared to sign a comprehensive agreement with King Hussein on future Jordanian-PLO relations intended to end months of tension between the two Arab lead-

ers, largely over the status of occupied Arab East Jerusalem.

The PLO claims East Jerusalem as the future capital of an independent Palestinian state but King Hussein, as a direct descendant of the prophet Mohammed, claims to have a special custodian role over the Islamic shrines in the holy city.

The draft accord outlines a compromise under which the PLO acknowledges Jordan's custodial role over Moslem sites while King

Hussein backs future Palestinian sovereignty over the city.

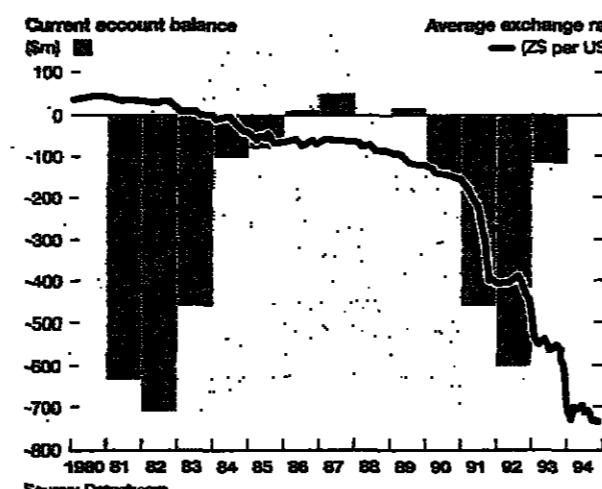
The agreement includes six other accords on economics, finance and banking, telecommunications, education, transport, information and administrative affairs.

Meanwhile, Syria yesterday condemned Israel's announcement that it would begin to work on plans to separate Israelis and Palestinians by means of a 380km fence, and increased border police patrols.

## Zimbabwe economy worries donors

Aid meeting postponed over reform problems, writes Michael Holman

### Zimbabwe: an economy under pressure



Source: Datastream

half of 1995, especially given money supply growth of more than 40 per cent last year. No details have been given of the amount of extra revenue from the tax rises.

A fortnight ago, Mr Emmerson Mnangagwa, acting finance minister, said he intended an income and profits tax surcharge of "at least 5 per cent". While the tax rises are no surprise, they threaten to undercut government promises of sharply lower inflation in 1995.

Aside from the new revenue measures, economic analysts in Harare say that the government will have to cut government spending further if Zimbabwe is to keep to the renegotiated terms of the programme.

Most observers in Harare believe this is unlikely before the election.

Although commentators forecast a comfortable victory for President Mugabe's Zanu party, in power since independence in 1980, drought and economic adjustment are taking a heavy toll. Real incomes are lower now than at independence, and unemployment has quadrupled.

Although far-reaching reforms have been introduced since the programme got under way, the process has been erratic. Trade has been liberalised, most foreign exchange controls lifted, and investment conditions improved. But public sector reform has been slow, and subsidised state corporations are a heavy drain on government finances, totalling \$23bn (£22.5bn), or 6.5 per cent of gross domestic product in 1994/5.

Apparently under pressure from donors, a Zimbabwe cabinet committee has recommended liquidation of three parastatal, the sale of government shares in public companies and privatisation of some utilities.

Under the current programme, the budget deficit should have been reduced to 5 per cent of gross domestic product by mid-1995. This assumed that Zimbabwe's worth of state assets would be sold off by June, and ignores some \$23bn in state corporation losses. If these items are taken into account, the deficit would rise to more than 10 per cent of GDP.

A further factor in the implementation of the adjustment programme has been government reluctance to cut state spending on defence - the third largest item in the 1994/5 budget, at 3.5 per cent of GDP.

The issue was highlighted at the weekend when an independent Sunday newspaper in Harare reported that two military helicopters were being bought from France at a cost of \$45m (£30m). The deal was confirmed by a defence ministry official.

The paper said the aircraft were being bought from Eurocopter, a joint venture between France and Germany.

Other worrying indicators include the level of public sector debt, which now exceeds Zimbabwe's GDP, while annual interest charges are estimated at 14 per cent of GDP. At the end of 1993, external debt was \$3.6bn, with service payments absorbing 30 per cent of exports.

### INTERNATIONAL NEWS DIGEST

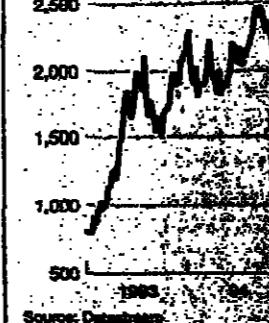
## Italian groups seek Iraq ties

A trade delegation representing small and medium-sized Italian companies will be arriving in Baghdad tomorrow to discuss the improvement of economic and commercial ties with Iraq. An Italian foreign ministry spokesman speaking in London last night played down the significance of the visit: "It is a private visit organised by the Italian-Arab Chamber of Commerce and has not been co-ordinated by our government". Baghdad is hoping Italy, together with France, will bring pressure on the United Nations to lift its sanctions regime. Separately, the Conseil National du Patronat Français confirmed yesterday it was organising its second delegation of senior business executives to Iraq in February. A delegation of UK businessmen is to visit Baghdad on February 15. *James Burns, London and Andrew Jack, Paris*

## SA gold industry earnings fall

### South Africa

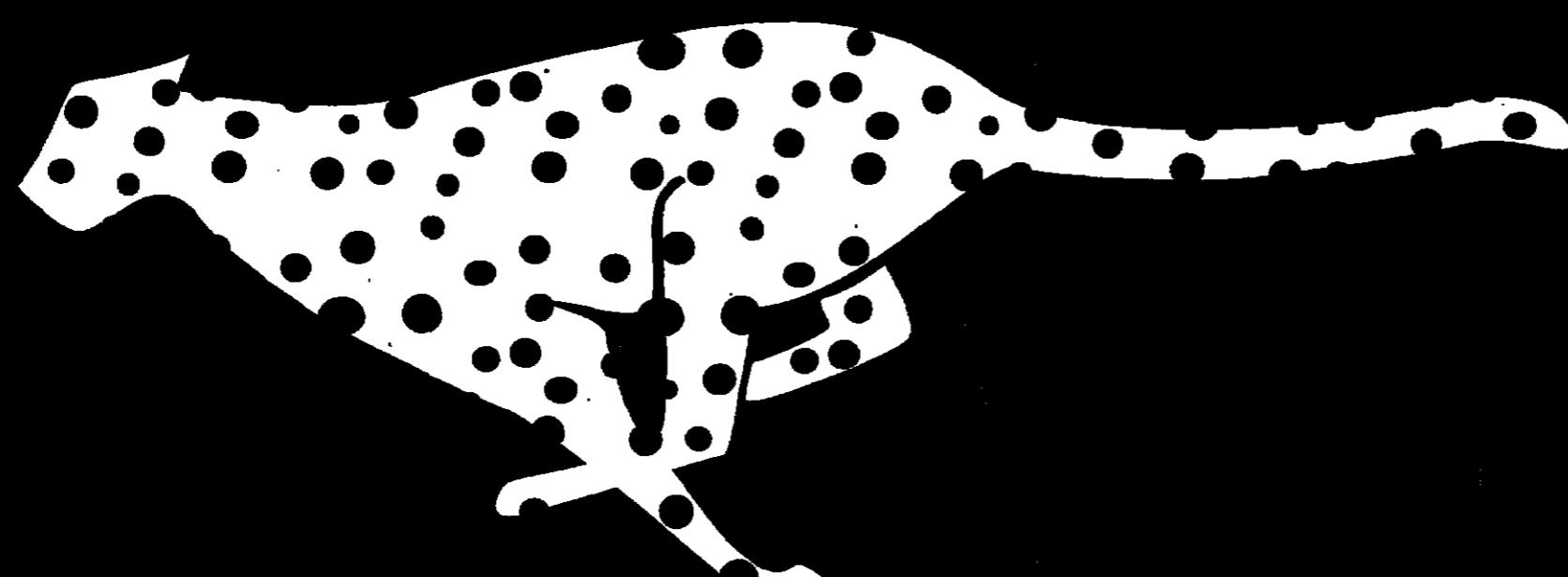
#### JSE Gold Index



Source: Datastream

South Africa's gold mining industry, which contributes about 4.5 per cent of GDP and employs 380,000 people, reported a fall of over 30 per cent in net earnings in the quarter ending December 1994. According to Mr Nick Goodwin, of brokers E.W. Baderson, total net earnings fell to \$575m (£360m) in the past quarter from \$712m in the September quarter. Rising costs, a lacklustre gold price, a strong rand and labour instability were expected to continue to hit production and profits. *Reuter, Johannesburg*

Southern African nations meet. Western donors tomorrow to drum up support for fledgling efforts at economic integration. Officials of the 11-nation Southern African Development Community (SADC) said the group would seek to raise about \$3.6bn (£2.35bn) in the forthcoming conference with donors in Lilongwe, Malawi. The money is to cover development programmes in several key sectors. The SADC comprises Angola, Botswana, Lesotho, Malawi, Mozambique, Namibia, South Africa, Tanzania, Zambia and Zimbabwe. *Financial Times*



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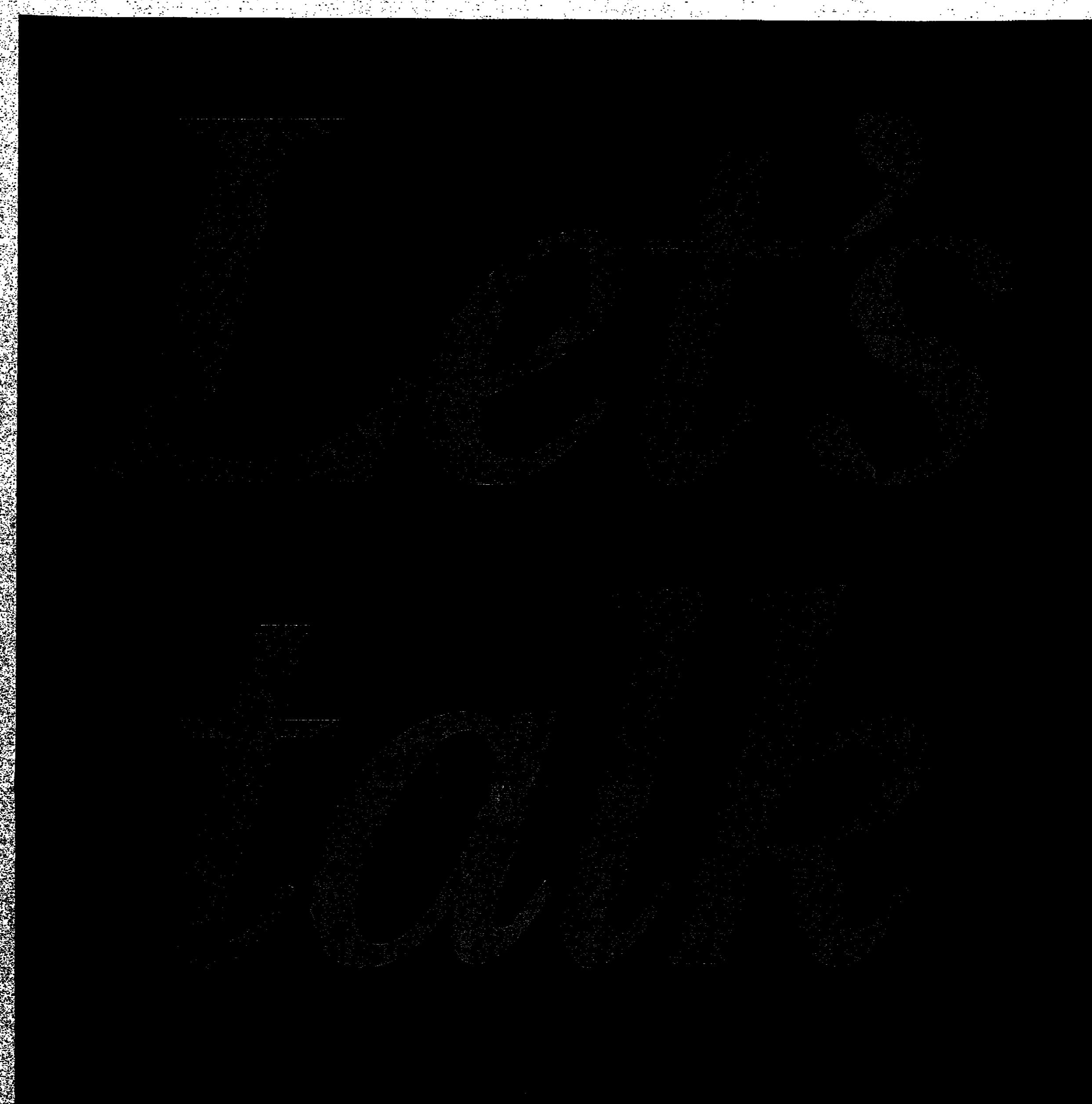
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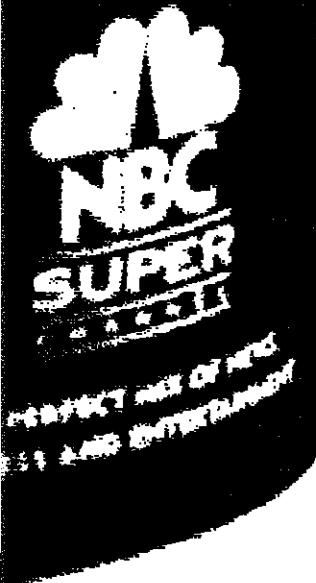
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## NEWS: THE AMERICAS

# Fed on course for rate rise after Greenspan testimony

By Michael Prowse in Washington

There are differing views on Wall Street about the likely pace of economic growth this year, but near unanimous agreement that the US Federal Reserve will raise interest rates further to curb the economic expansion.

Fed policymakers meet next Tuesday and Wednesday and are widely expected to signal another  $\frac{1}{4}$  point increase in short-term rates to 6 per cent - a doubling of rates since last January.

A larger increase, such as the  $\frac{1}{2}$  point increase announced in

November, is not out of the question, but is seen as unlikely, given the nervousness in financial markets following the Mexican crisis and the Kobe earthquake.

Many economists expect a further  $\frac{1}{4}$  point increase in March and predict that short-term rates will rise to about 7.0-7.5 per cent by the end of the year, unless evidence emerges of a rapid deceleration of growth. Long bond yields are expected to remain more stable, rising to a peak of perhaps 8.5 per cent.

Testifying before the Senate finance committee yesterday, Mr

Alan Greenspan, Fed chairman, did nothing to undermine these expectations. If the inflation outlook was not to deteriorate, he warned, the Fed would have to remain "vigilant" - a word that in the past has signalled higher interest rates.

He noted that prices of raw materials and components had risen sharply and cited growing evidence that "firms are considering marking up the prices of final goods to offset those increased costs." In the labour market, reports of shortages of workers were growing more frequent, reflecting jobless

rates in many regions that were lower than at the peak of the 1980s' expansion.

Some analysts believe that a plunge in the unemployment rate to 5.4 per cent last month and a sharp rise in the rate of industrial capacity utilisation to more than 88 per cent have greatly increased the danger of economic "overheating." Yesterday Mr Greenspan warned economists not to read too much into such rule-of-thumb inflation thresholds.

In modern economies "output levels may not so rigidly constrained in the short run... the appropriate

analogy is a flexible ceiling that can be stretched when pressed; but as the degree of pressure increases, the extent of flexibility diminishes."

Mr Greenspan hinted that the long-run potential rate of economic growth might have risen somewhat following extensive industrial restructuring in recent years and signs that the US was regaining its former global dominance in several high-technology sectors, such as computer software.

However, "the fact that labour and factory utilisation rates have risen as much as they have in the past year or so does argue that the

rate of increase in potential is appreciably below the 4 per cent growth rate of 1994."

The bottom line for the Fed is that the economy cannot grow for long at an annual rates of 4 per cent or more without re-igniting inflation.

Some further monetary tightening is thus seen as inevitable. But experienced Fed-watchers, such as Mr Bill Griggs of the Wall Street firm Griggs and Santow, note that the Fed has been surprised by how little inflationary pressure has so far emerged.

Last year consumer price infla-

tion was less than 3 per cent for the third-year running - and the Fed believes the index overstates the underlying inflation rate by about a percentage point.

It appears that "we have gotten close to achieving effective price stability," though "we're not there yet," Mr Greenspan said yesterday.

So long as the price numbers remain subdued, the consensus view is thus that the Fed will stick to its "gradualist" strategy of regular, but fairly small, increases in short-term rates.

## AMERICAN NEWS DIGEST

## California storm bill put at \$360m

This month's storms in California caused an estimated \$360m in insured property damage, said Property Claim Services Group, a division of American Insurance Services Group. The storms caused another \$110m in insured damage in Oregon and across the affected Gulf coast and southeastern states, said Mr Gary Kerney, assistant vice president of Property Claim Services.

The storms caused severe flooding in northern and southern California earlier this month, inundating hundreds of homes and forcing thousands to evacuate. Reuter, San Francisco

### 13 deputies held in Salvador

More than 1,000 former members of El Salvador's armed forces have taken over four public buildings and are holding scores of hostages, including 13 deputies, in protest at the government's failure to honour promised redundancy payments. One protester was shot dead by police on Tuesday morning outside the ministry of finance, which has been occupied along with the national assembly, the supreme court, and the offices of the army's pension fund. The protesters have also blocked some main roads around San Salvador.

President Armando Calderon Sol went on national television on Tuesday night and said the protesters were being "manipulated by sectors who wanted to break the climate of peace" after the end of the civil war. Analysts say the protest was provoked by government foot-dragging on commitments made to ex-combatants as part of a peace accord signed with left-wing guerrillas in January 1992 to end a 12-year civil war. Edward Ortez, San Salvador.

### US home sales rise 1.8%

Sales of existing US homes rose 1.8 per cent in December to a seasonally adjusted annual rate of 3.85m units from a revised 3.82m in November. The National Association of Realtors said yesterday. Compared to a year earlier, sales were down 10.6 per cent from a record high 4.35m annual rate in December 1993. November's figure was revised from 3.81m.

For all of last year, existing home sales rose by 4.3 per cent to 3.96m units from 3.802m in 1993. The association said that 1994 was the strongest year since 1978, when 3.986m units had been sold. The December rate was well above the Wall Street forecast of 3.8m and appears to counter other recent signs that the housing market may be weakening.

But the association said the flurry of activity between November and December belied what lay ahead - an overall slowdown in home purchases due to higher mortgage rates. "Rather than gamble on more rate hikes, consumers who had been undecided made their move," said Mr Edmund Woods, association president. "But the long-term impact will be a drop in sales, as more [prospective buyers] are priced out of the market." Reuter, Washington.

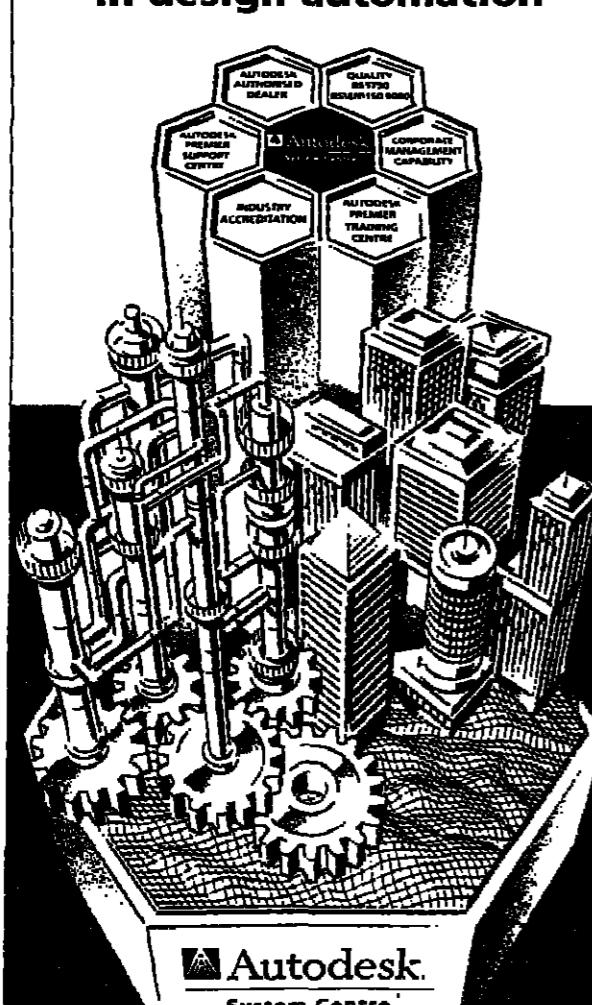
### US plutonium shipment fears

Representatives in Washington from the US possessions of Puerto Rico, the US Virgin Islands, American Samoa and Guam, and of the state of Hawaii, have told President Bill Clinton that they are unhappy that the US government has not responded to concerns about the safety of a planned plutonium shipment through their region.

"We cannot stand by silently and allow this potentially lethal shipment to pass through or near our waters, or to allow our ports to be available for emergency calls by a waste ship in distress," they said in a letter to Mr Clinton. The Japanese government has not yet decided the route of the shipment of plutonium from Europe to Japan next month, but says there is no reason for the safety concerns.

Several Caribbean countries have protested at the proposed shipment, the first of several planned for the next 15 years. The plutonium is extracted from nuclear waste sent by Japan to French and British reprocessing plants Comitee James, Kingston.

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## Address reveals troubled state of the president

Clinton rose to the moment, but it was clear how much he had been weakened

To further his political revolution, Mr Newt Gingrich, Speaker of the House, has allowed television cameras new angles to cover proceedings in Congress. One was particularly telling during President Bill Clinton's State of the Union address on Tuesday night.

It showed the speaker and vice-president Al Gore squarely behind the president, their reactions clearly visible on many of the approximately 30 occasions the chamber burst into applause during the 80-minute speech.

Frequently Mr Gingrich nodded

**Jurek Martin, US Editor, reviews the president's State of the Union speech**

sagely: when Mr Clinton promised to cut taxes and government he leaped to his feet clapping; when the president spoke of fighting any repeat of the ban on assault weapons or dismantling his national service corps, the Speaker sat on his hands while Democrats on the floor raised the rafters with cheering.

It was the perfect television metaphor for the new political realities of Washington which see a Democratic president, for the first time in 48 years, in serious competition for power against an aggressive Republican legislature with fire in its belly.

It would be churlish not to concede that Mr Clinton rose to the moment. The speech might have been long and it had virtually nothing in it for a foreign audience (except Mexico). But he never flagged and his address had an overtone full of grace notes and humour and a glorious rhythmic coda.

Even Mr Gingrich could scarce forbear to cheer as the president acknowledged, much as Ronald Reagan loved to, the presence of the ordinary citizens the White House had placed in the public gallery surround-

ing Mrs Hillary Clinton - young volunteers, a US soldier of Haitian extraction, a police chief, two black ministers and the youngest serviceman this century to win the Medal of Honor in war - at Iwo Jima in 1945.

The middle movements also had their fine passages. There is little chance that Congress will approve an increase in the federal minimum wage but Mr Clinton could not have made the case for "honest hearings" better by pointing out that congressmen earn in a month what a minimum wage worker makes in a year.

But one speech does not necessarily make a presidency and this president is in political trouble, as he intermittently acknowledged during the address. In attempting healthcare reform last year "we bit off more than we could chew," he noted - and suggested that this year more modest insurance reforms might be appropriate.

There might also have been a gentle warning to Mr Gingrich and his self-proclaimed "revolutionary cohort" when Mr Clinton said early on: "I am frank to say I have made many mistakes," adding pointedly, "and I have learned again the importance of humility in all human endeavour."

As R W Apple put it in the New York Times yesterday, the speech was "notably short on demands for action and long on appeals for comity - a demonstration of just how much he has been weakened in the last 12 months".

In a rather flat and orthodox Republican response, Governor Christine Todd Whitman of New Jersey, a rising star in the party, commented on how much Mr Clinton had taken her party's electoral message on board. Certainly, the "policy wonk" president, with a programme for every problem, was little in evidence.

The president spoke, either neutrally or approvingly, of lower taxes, smaller government, tighter immigration controls, the line-item budget veto and other subjects on the Republican agenda.

Referring to the last two elections and their mandates for "change", Mr Clinton said: "In both years we didn't



Clinton with Gingrich, right, and Gore before the president's second State of the Union address

hear America singing, we heard America shouting and now all of us, Republicans and Democrats alike, must say 'We hear you.'

But the Democrat in him is far from dead. Not only did he argue for a "modest" increase in the minimum wage, but he extolled a whole list of social programmes that still work - immunisation, school lunches, preschool education, worker re-training.

Nor would he subscribe to the currently vocal libertarian view that government is necessarily bad. Borrowing from John Kennedy's famous inaugural address in 1961, Mr Clinton declared: "We should not ask government to do for us what we should only do for ourselves. But we should use government to do those things we can only do together."

Whether these mixed affirmations of faith make the president a new Democrat, an old Democrat or just the original elector Bill Clinton will be endlessly debated by the pundits. But he did return to some of the middle-

class themes of his successful 1992 campaign, including the need for greater public involvement in the community, on which there is at least some grounds for accommodation with the Republican majority.

And, like the 1992 campaign and the mid-term elections last year, the battleground remains domestic. The opportunity for Mr Clinton to score as "foreign policy president" in the year ahead clearly presents itself, but his speech was perfunctory on external relations.

He merely said that aid to Mexico would preserve American jobs and that US goals should be to encourage nuclear non-proliferation and combat terrorism around the world. Not a word on Nato, the UN, Chechnya or Bosnia passed his lips. Rwanda and Haiti got a mention, but only in the context of praise for the roles played by the US military.

Still, the audience liked the speech. Mr Gingrich, in a mellow mood, had said in advance he expected the pres-

ident to give a good speech, a message picked up by even his more ardent supporters (though some of them kept waving copies of the Republican "Contract with America" on the House floor).

Senator Robert Dole, the majority leader, yesterday accused Mr Clinton of "a cheap shot" for urging Congress to stop accepting gifts from lobbyists while considering lobbying reform, but otherwise graded the speech with a B, maybe a bit more.

The public, perhaps sated after opening arguments in the OJ Simpson murder trial, was enthused. Two overnight polls found more than 80 per cent approved the president's address, giving high marks for his dissection of America's problems.

But quality of analysis has rarely been a Clinton fault. It is how he plays out the long slog ahead - and how the Republican majority plays out its hand - that will determine the future of this president.

See Editorial Comment

A totally open telecommunications market has started a phone revolution, writes Imogen Mark

## Chile gives out its number to all-comers

For a few days at the end of last year, Chileans all over the world were inundated by telephone calls from long-lost friends and relatives back home. The callers were taking advantage of an intense price war in Chile's newly opened telephone market. Chileans could phone anywhere in the world at peak time at a cost of less than 15 US cents for three minutes.

Reason returned with New Year - to the relief of foreign investors holding shares in some of the companies involved in the discounting - and rates went back up to more rational levels. A peak time three-minute call to the US, the main destination for international calls, now costs \$1.65. That is still a steal compared with Mexican rates of \$5 for a comparable call, Argentine, \$6, or Japanese, \$7.

Under the new market regime, any phone company wishing to compete needs only the approval of the minis-

try of transport and telecommunications for a business plan, and then the necessary investment funds to carry it out. The tariffs are set by the market.

So Bell South, the US telecom company based in Atlanta, plans to spend up to \$40m in Chile, hoping to build a 20 per cent market share and gain experience that will help the company when the Netherlands, Israel, Argentina and Mexico open their markets to competition over the next few years.

Bell South, based in Philadelphia, and its Mexican partners have a similar plan. Chile is a testing ground, for Mexico's \$30m long-distance market once Telmex's concession expires in 1996.

Chile's long-distance telephone business is modest in world terms. There are only 1.5m phone lines, 11.4 lines per 100 people, compared with 50 lines per 100 in the US. The Latin American average is nine.

Apart from the two Baby Bells, there are another five operating com-

panies in the long distance market, all of them Chilean. Two are leading players formed from the old state monopolies, Entel, the long-distance carrier and CTC, the domestic carrier.

"Seven companies is an ideal number," says Mr Jorge Rosenblut, deputy minister responsible for telecommunications. "There's no chance of a cartel operating." The seven companies monitor the market themselves, he says, making the ministry's task relatively easy. CTC, which owns the network, is required to hand over regular records of all the communications traffic and the carriers who took it.

The multi-carrier system started up, cautiously, in a rural province in late September and spread over the country to include Santiago at the end of October.

One lesson the companies learned from the brief price war was that there was little consumer loyalty. "Callers just looked at the ads in the paper for the day's bargain offer," says Mr Jorge Fritis, head of planning at Entel. The only way to keep customers will be by competing on service, he says.

Mr Rosenblut agrees. The carriers cannot compete by selling a commodity, he says, they have to generate revenue and add value, like phonecards and free call services.

With the investments already made in fibre optics and other equipment, plus the advantages of low salaries, cheap office space and low phone rates, he sees enormous scope for Chile to become a platform for all kinds of telephone business in the region. One small enterprise in Santiago, for example, is already inputting credit card transactions on-line to a leading US retail chain. And a big US securities trader is looking at moving its Latin American research department to Chile.

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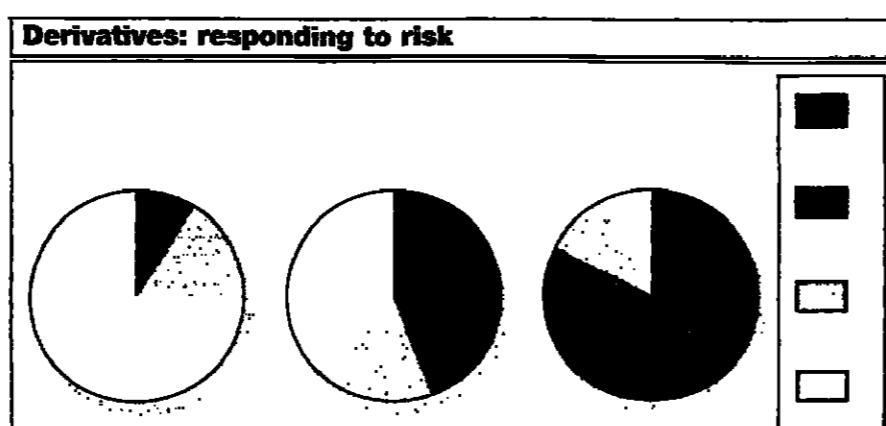
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Ian and Richard on corporate concerns over derivatives

These events are already having an impact on treasurers, who increasingly use financial derivatives at least in a simple form. There can be few boards of directors, or chief executives, who have not sent urgent requests to their finance directors and treasurers to find out what arcane instruments they may have bought, and why.

However, investors do not have to use derivatives to leverage investments, as some recent cases have shown.

If more users carried out complex tests on derivatives portfolios - such as "stress tests" showing price movements in conditions of market volatility - it would make it easier to avoid unwanted risks. Not all companies buying derivatives need do so.

A study by the Group of Thirty, a Washington-based group of senior bankers, this week found that managers are now trying to monitor their treasury operations more closely.

## Paris talks tough on breaches of EU law

France's move may pose a dilemma for British Conservatives who recently argued that the UK should pay no extra into a Brussels budget that is so defrauded, but who might bridle at the EU reducing national prerogatives on legislative sanctions.

A former chairman of the European parliament's budget control committee, Mr Lamassoure said it was his experience of investigations into the same fraud covering several EU states that "some countries are very strict, while others show great gentleness, even complicity" towards fraudsters.

## CSCE agrees to Karabakh peace operation

If it goes ahead, the operation will be the first such effort to be organised by the CSCE, a 53-nation body which has sought to carve a role for itself as a smaller version of the United Nations.

Several CSCE members - including the US, and the Baltic states - remain suspicious of Moscow's claim to be an impartial holder of the ring in the multiple wars that have broken out on the periphery of the former Soviet Union. In Moldova and Georgia, Russian officials have made no secret of their sympathy for pro-Moscow secessionist movements.

Tens of thousands of people have been killed, and 20 per cent of Azerbaijan's territory has been wrested from government control, by a war which broke out in 1988 and has driven over a million people from their homes.

However, diplomats warned that many points of detail were still outstanding.

In a sign of Russia's continuing wish for freedom of action in the southern republics of the former Soviet Union, the summit failed to agree on a broader document setting out general principles for peacekeeping over which diplomats have been wrangling for many months.

## Russia's in the cold

A formal protest from the Estonian foreign ministry about human rights violations in Chechnya met with a stinging response from their Russian counterparts.

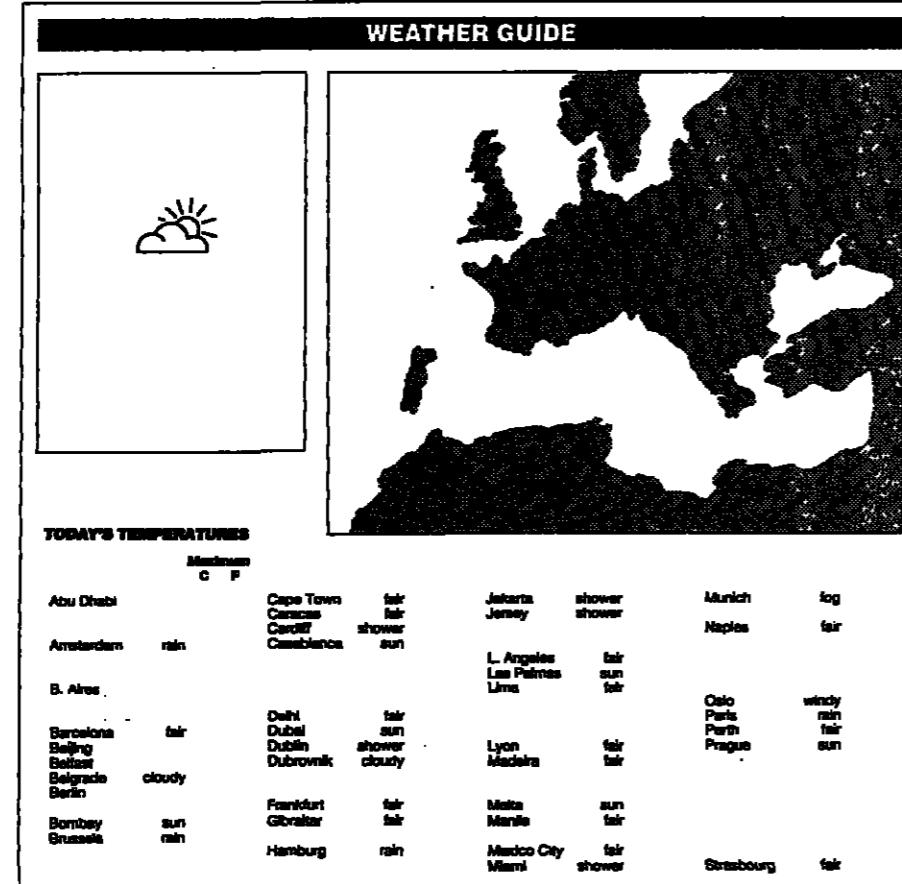
Mr Oleg Soskovets, a first deputy prime minister of conservative bent, has also criticised aspects of the privatisation programme, which had been hailed as the one great achievement of Russian reform.

The *Izvestiya* newspaper quoted one of the privatisation agency's employees as saying that they left a bomb was ticking in the building.

An ominous sign of a general hardening in the Kremlin's line is the tough stance it has taken towards other ex-Soviet republics that have criticised Russian policy in Chechnya.

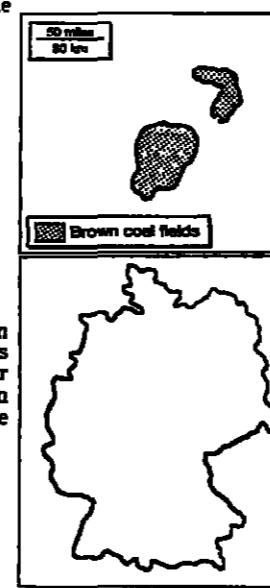
Also seen as gaining influence were the shadowy figures whose main distinction is their close proximity to the president.

Russia's liberals respond that they accept the need for the state to assert itself, but they are nervously wondering what sort of state Russia is becoming.



## Big coalfield

The environment ministry estimated approximately DM1.5bn would be spent each year from 1995 to finance the project, in addition to the DM850m already spent.



Brown coal, one of the main culprits of east Germany's environmental problems under the communists, was the main source of energy for the region's factories.

### Huaneng in China power deal

Huaneng Power International, together with Southern Electric International (SEI) of the US, is to build a \$1.1bn power plant in China's Jiangsu province. Huaneng will own 51.7 per cent of the plant to be built in Nanjing city. SEI about 30 per cent, and local government the rest. Construction of the two 600MW units is to start in 1996 and finish by 1999.

"Capital investment will account for 25 per cent of the total and the rest will be debt," according to a manager in Huaneng's securities department. But the company has still to reach a profit agreement with local government before a contract can be signed.

"We hope they will accept Huaneng's current profit scheme approved by the ministry of power industry," the manager said. In June, the ministry cleared a price policy for Huaneng based on a 15 per cent return on net assets.

### German consumption still weak



The fall against September this year (seasonally and calendar adjusted) was also 2 per cent.

Yesterday's announcement from the federal statistics office showed consumption has still to pick up after the recession.

The decline in the first 10 months was a real 1 per cent for the whole country. Department store turnover in west Germany, down a nominal 6 per cent, was especially weak. Mail order sales dropped 3 per cent and those of supermarkets fell 4 per cent.

Norway's trade surplus in November fell to NKR5.2bn (\$485m) against NKR6.1bn in October. The trade surplus for November 1993 was NKR3.5bn.

Spain's budget deficit narrowed in the first 11 months of 1994 after revenues rose 4.4 per cent and spending climbed 2 per cent, said Mr Pedro Solbes, economy minister. He said Spain's current account deficit would be slightly above forecast for this year, at about 1 per cent of GDP, while the deficit for 1995 could be similar.

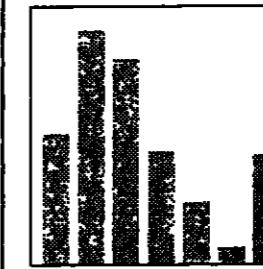
### Taiwan carrier to expand fleet

Taiwan's China Airlines (CAL) plans to buy up to 10 small regional passenger jets for about \$400m. Models under consideration include the Boeing 737 series, the McDonnell Douglas MD-80 series and the Airbus A320. CAL is considering spending \$40m on upgrading its fleet within the next 10 years.

Expansion of the company's fleet of larger regional jets and long-distance aircraft with 350 seats or more is also under consideration.

### ECONOMIC WATCH

#### Dutch economy bounces back



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## NEWS: UK

# N Ireland proposals may give Unionists veto

By David Owen

UK-Irish proposals for a political settlement in Northern Ireland look set to give the pro-British unionists an effective veto over the scope of executive powers to be entrusted to new all-Ireland bodies.

An advanced draft of the joint framework document setting out the two governments' proposals suggests that no north-south institution will be able to operate executive powers without the agreement of both a proposed Northern Ireland assembly and the Irish parliament.

Unionists would be expected to make up a majority in a new assem-

by, giving them the ability in normal circumstances to block the extension of such powers to an all-Ireland body.

In a development that may further reassure unionists, who have voiced growing concern about the proposals in recent days, the UK government appears to have got its way over a mechanism for dealing with complaints about decisions made by the new assembly.

Dublin argued that this mechanism should take the form of a joint committee of the Anglo-Irish conference. But the draft is thought to propose that it is up to each to sort out problems in its own jurisdiction.

The two governments plan to put

the document - now said to be 98 per cent complete - to Ulster's main constitutional parties for further negotiation. Mr John Major has been at pains to emphasise that the proposals would not be imposed.

The draft, which will be discussed by senior British and Irish ministers in London today, sets out three levels of power - executive, consultative and harmonising - which could be entrusted to a future all-Ireland body or bodies.

But it gives no indication of how broad the scope of each of these powers might be. It is understood that the two governments may draw up separate proposals of the areas in which

they think each power should apply at a later date.

Individuals familiar with the two governments' discussions say one analogy for the way executive powers might operate is the European Union's Council of Ministers, whose decisions do not generally have to be ratified by EU member-states but whose members are responsible to national assemblies.

The harmonising powers envisaged might enable a north-south body to consult on whether laws north and south of the border should be brought into line in certain areas. Final decisions, however, would rest with individual jurisdictions.

Today's discussions in London between Sir Patrick Mayhew, the Northern Ireland secretary, and Mr Dick Spring, the Irish foreign minister, are likely to focus on the key constitutional trade-off at the heart of the document.

Under this, Dublin would dilute the Irish government's constitutional claim to Northern Ireland, while London would change the 1920 Government of Ireland Act to enshrine the principle of consent.

It is still not clear whether the Irish government has agreed to seek to change article two of its constitution which claims the whole island of Ireland as its national territory.

Latest survey of social trends shows that Britons are living longer and learning longer

## Ageing society to stretch state's resources

By Andrew Adonis,  
Public Policy Editor

Youth and retirement are rapidly being transformed from brief phases of life to experiences as long-lasting as conventional work.

The elongation of education and post-work retirement are the most striking developments highlighted in this year's survey of social trends published today by the British government's statistical service.

The survey shows formal education becoming a 20-year affair, women giving birth later, men retiring earlier, and men and women living longer.

The fall in the birth rate in the 1970s mitigated the short-term consequences: the ratio of children and pensioners to those of working-age - the so-called "dependency ratio" - fell between 1971 and 1992, but it is set to rise dramatically over the next 30 years.

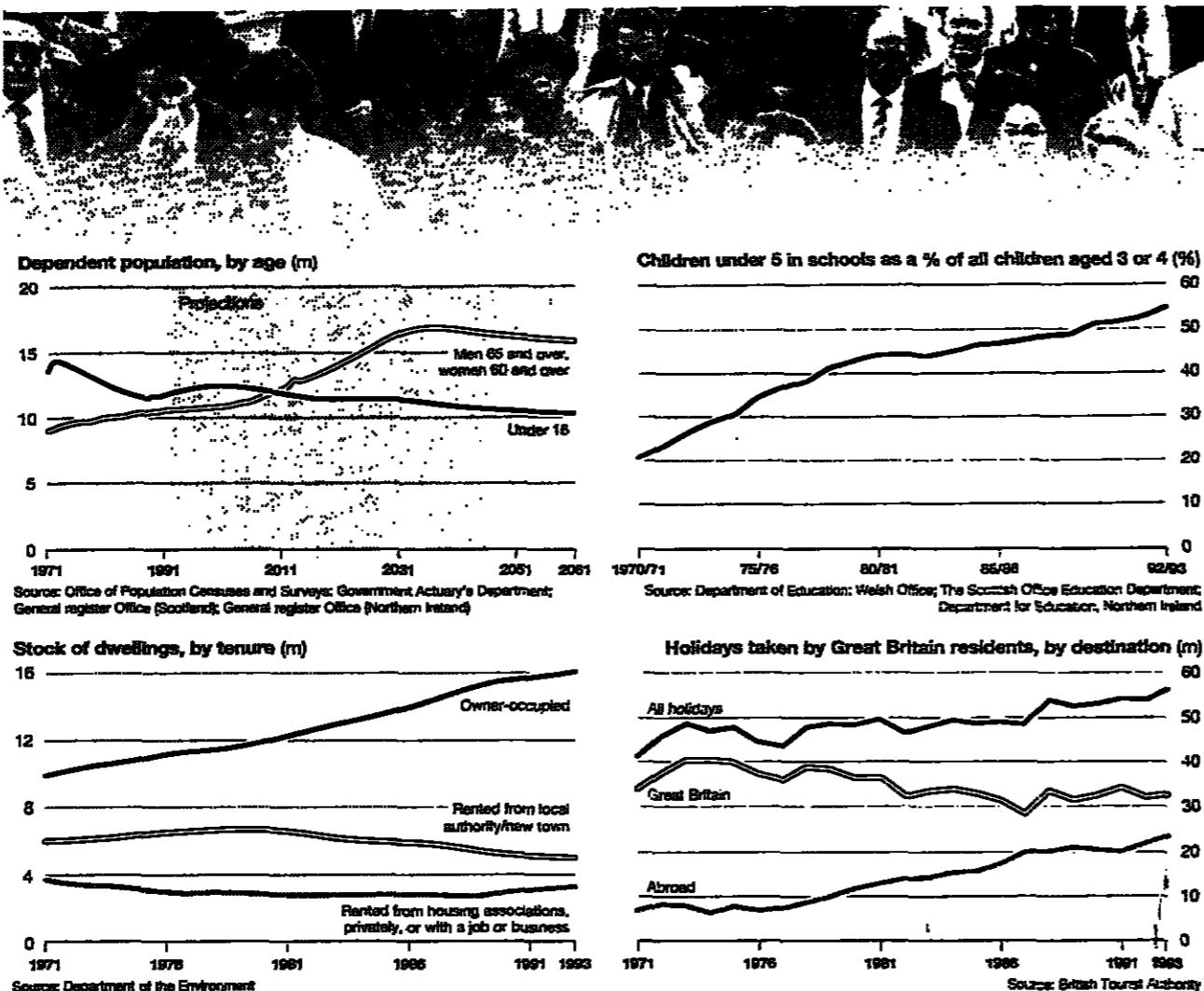
Of these trends, probably the one with the most serious social implications is the rise of the over-60s. The proportion of this age group in the population has risen by nearly 70 per cent since 1971, from 2.3 per cent to 3.9 per cent. It is projected to more than double between now and the middle of the next century, when the 1960s "baby boom" generation reaches their 80s.

Although typically considered in the same breath as other pensioners, the over-60s ought to be considered as a separate class. They make significantly greater demands on health and social services than the recently retired. And the survey shows them to be considerably poorer: the average income of those within five years of retirement is 50 per cent greater than that of other pensioners, with the over-60s the poorest of all.

For those born in 1931 - today's recently retired - average life expectancy was 61.6 years for men and 57.7 years for women. Women born in 1961 can expect to live an average of 12 years longer than that, and men a decade longer. By the year 2000 a new-born girl could have a life expectancy of more than 80.

At the opposite end of the life cycle, education from "three to 23" is on the way to becoming the typical tale of youth. More than half of under-fives attended school in 1992-93, compared with barely a fifth in 1970-71. Over the same period, the number of

### A picture of Britain: pointers to the future



The end of the recession has brought a further surge in the holiday industry. The number of overseas holidays taken by Britons is at a record high, accounting for more than 40 per cent of all breaks, Andrew Adonis writes.

After a steady decline in the number of holidays taken by Britons within Great Britain during the early 1980s, the number remained stable, at about 32m a year, for the six years to 1993.

In 1993, British residents took 23.5m

male higher education students nearly doubled, and the number of female students more than trebled.

Almost one in three 18-year-olds now goes on to higher education, roughly trebling the proportion of 20 years ago.

The breakdown of the traditional family continues. Last year more than a quarter of all households - and a third of white households - were people living alone.

holidays abroad - more than three times as many as in 1971.

About 16 per cent of people took two holidays, compared with one in eight in 1971. For leisure at home, nearly three quarters of households now own a video recorder.

But 1993 saw a slight decline in television viewing (including recorded videos), in spite of the increasing ownership of videos, satellite dishes and cable systems. The average person

watched 25 hours 41 minutes of television per week - or nearly three and three-quarter hours a day.

But contrary to conventional wisdom, it appears the young are least likely to be glued to the screen.

In 1993 the 4-15 age group watched an average of 19 hours 12 minutes a week, barely half the tally for the over-60s (35 hours, 47 minutes) and significantly less than their parents in the 35-44 age range (36 hours, 24 minutes).

While the number of male single parents has remained static at about 2 per cent of all families since the early 1970s, the number of lone mothers has nearly trebled, with a particularly steep rise since 1987.

Elongated education, later marriage and the rise of single-parent households is leading to later childbearing. Of women born in the late 1940s, less than a fifth were childless by the age of 30; of those born in 1962,

more than a third were childless by 30.

The rise of the home-owning consumer society continues inexorably. In 1993 almost nine in 10 households had a telephone, washing machine and a freezer. More than half had a video and/or a microwave and 40 per cent boasted a compact disc player. Twenty years ago, less than half had a phone and barely two-thirds a washing machine.

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JOHN SIEBEL

# Astronomical cost has kept the future of personal communications up in the air.

## We've just brought it down to Earth.

Today's market is clamoring for truly portable, global personal communications. But the costs of such a system — costs that will ultimately come out of the consumer's pocket — have remained dauntingly high. Until today. Because today we launch the Odyssey™ system, a constellation of medium-earth orbit (MEO) satellites. In a world in which most people lack access to even basic telephone service, this satellite-based mobile communication system will provide convenient, effective, consistent communications to subscribers around the globe. And it will do so at a price that compares favorably with cellular service.



Directed antenna coverage concentrates service on land masses worldwide. Dual-satellite coverage provides even greater assurance of reliable communications.

### FROM URBAN CENTERS TO THE MOST REMOTE CORNERS OF THE GLOBE

The Odyssey handset, essentially a palm-sized earth station, will operate in both cellular and satellite modes. Where terrestrial service exists, the Odyssey system will augment it, regardless of regional or carrier compatibility. Where it is absent or interrupted, your handset will link you directly — and transparently — to an Odyssey satellite.

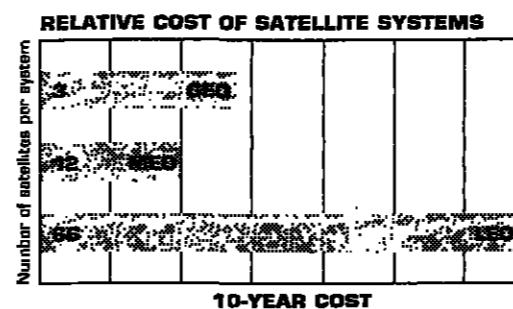
### A JOINT VENTURE OF TRW AND TELEGLOBE

For more than three decades, TRW Inc. has stood at the forefront of space communications, enjoying a worldwide reputation built on innovation, reliability and technical excellence. Teleglobe Inc., through its subsidiaries, operates one of the world's most extensive digital telecommunication networks and is a quickly emerging leader in the global mobile arena.

Together, TRW and Teleglobe create the driving force behind Odyssey.

### THE BEST VALUE FOR THE USER

Simpler technology and faster start-up are scheduled to bring Odyssey into global service in 1999, before any other system. Superior service and minimal user cost will attract subscribers worldwide.

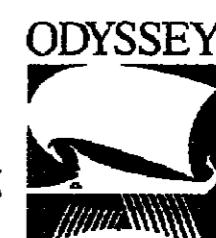


Licensing authority for the Odyssey system is expected in early 1995. Unlike other systems, it will use frequencies already allocated for this type of service

and components derived from proven TRW technology. Initial start-up costs will be 60 percent lower than for the two other major systems in a recent study.\* And Odyssey's constellation price will be fixed. Estimating over a 10-year period, replacement satellites for the other systems evaluated will give Odyssey an even more dramatic cost advantage. Just as importantly, subscriber projections indicate that Odyssey will offer the best value for the end-user.

Today, TRW and Teleglobe forge a new alliance to launch Odyssey. For more information, please contact:

North America & South America  
(New York) Tel.: 212 903 4267  
Europe (London) Tel.: 081 247 0123  
Asia (Hong Kong) Tel.: 852 845 1008



the adventure is just beginning



\* "A Revivalization of Selected Mobile Satellite Communication Systems: Epsilon, Globstar, Iridium and Odyssey," 1994, The Mure Corporation.

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## ARTS

Cinema/Nigel Andrews

# Originality untamed

**A**merican cinema has a long tradition of keeping writers and directors in separate slave colonies. In compound one, starving men and women sit chained to a communal table that sags under the weight of a hundred typewriters. In compound two dwell the visionaries and viewfinder-wielders: jodhpur-clad they walk the ground, picking out "compositions" and making strange framing motions with their hands.

Sometimes, though, a member of one colony breaks through the fence and breeds with an opposite-sex member of the other. Result after nine months: Hollywood's worst nightmare - the writer-director. He/she is an egomaniac and power-seeker. He/she - like a president without a congress, or in today's America vice versa - has no checks-and-balances mechanism to prevent the outbreak of wild, untamed originality.

Look at Whit Stillman's *Barcelona* and Sam Shepard's *Silent Tongue*. Both are deranged by Hollywood mainstream standards; neither was funded by a major studio. One happens to be good (*Barcelona*), the other had (*Tongue*). But both reveal the kind of creative quirks that go AWOL in the average *Timelapse* movie, more interested in providing comfort than challenge.

*Barcelona* has a lot of talk, no plot (or several) and a hundred tons of non-sequitur. Stillman made *Metropolitan*, that blissful comedy about spoilt Ivy Leaguers looking for love that could have been co-written by Woody Allen and Ronald Firbank.

So could *Barcelona*; with a little extra help from Joseph "Catch-22" Heller. Our heroes are American cousins abroad. Ted (Taylor Nichols) is a solemn misanthrope recovering from a broken romance. Fred is a dry quipster-playboy in Navy uniform. Calling himself "an advance man for the Sixth Fleet",

he sees it as his mission to stamp out anti-Americanism in mid-1980s post-Franco Spain.

There is a lot of it about. A USO office is bombed. A radical journalist tries to steal Ted's girlfriend.

And when Fred offers a half-baked political parable about ants during a party everyone is sitting on a patch of grass watching the creatures - the Spaniards cry aggressively "You call us ants?"

Intercultural tension is one kind among many. The whole film is about crossed wires. The two cousins are fast friends who affection-

BARCELONA (12)

Whit Stillman

SILENT TONGUE (12)

Sam Shepard

SUTURE (15)

Scott McGehee and David Siegel

ONLY YOU (PG)

Norman Jewison

ately hate each other. (One pastoral flashback to the New England lake where child Fred once stole child Ted's kayak.) The girls they date are mirror-reflections of their own unpredictable, interchanging personality traits: from the Aryan-blondes to the knotty, smouldering Latin. And Barcelona the town, let a mazy mysteriousness by cameraman John Thomas, is the perfect city in which to lose your ego and identity every time you take them out for a walk.

There was nervous laughter at the press show, as of an audience unaccustomed to being confronted with wit early on a Monday morning. Stillman has lashings of it. At another party - or perhaps the same one - Fred is berated by a Spanish guest for his country's rate of violent killings. "All those shoot-

ings" decry the guest. "Doesn't mean we're more violent," says Fred, "just better shots." Besides, as he also says, all anti-Americanism has its roots in sexual impotence. And by the time you have argued your way out of that, Ted and Fred have moved on to the next provocation.

How we wish Sam Shepard's *Silent Tongue* had been set in Barcelona. Alan Bates (charlatan medicine-peddler) and Richard Harris (forsaken prairie-dweller seeking to buy new daughter-in-law from Bates, having lost the last one) could have wandered into a USO office and been blown up. Or they could have wandered into a conversation with Ted and Fred and been shut up.

For Shepard's play - sorry, film - no, let us be honest, play-on-film - is 100 minutes of fancy logorrhea punctuated with berserk images.

The late River Phoenix, playing Harris's son, sits under a tree emoting at his dead wife, who oftentimes descends from the branches with blanched, half-deformed features.

Harris, having made off with Bates's second daughter, is being chased across the plains by Bates.

And Bates is being chased, to judge by his performance, by the spirit of the late Sir Henry Irving.

Poor River Phoenix is being chased by no one. Having now escaped Shepard's earthly metaphysics, he has gone to join the other shepherd in the skies. There the dialogue will be better and the airwaves will be free of the sound of vast, constipated, histrionic metaphors - about American history, American purity, American violence - seeking celluloid release.

*Suture* shows what sometimes happens - rarely but interestingly - when that intervening process we mentioned takes place between writer and director: place colonies.

Twins! Scott McGehee and David Siegel share creative credit in this low-budget first feature, a



No plot, but tons of talk and non-sequitur: Chris Eigeman and Mira Sorvino in Whit Stillman's 'Barcelona'

philosophical thriller about a semi-amnesiac construction worker (Dennis Haysbert) assuming his murdered half-brother's identity.

The film is piquant and pretentious in equal measure. A doctor called Renée Descartes; lines like "Each man has his own jungle"; music (very hip-polymorphous) by Verdi, Wagner and Johnny Cash; and a blithely disregarded, or perhaps devoutly Borgesian, non-sequitur in the fact of one half-brother's being black, the other white.

Meanwhile the movie makes so many nods to other movies that it ends up looking like a Los Angeles oil-drilling machine. There is Fran-

kenheimer's *Seconds* for the plastic surgery scenes, Hitchcock's *Spellbound* for the amnesia, and *film noir* passim for the determinedly "stylish" monochrome photography.

Still, *Suture* is mad enough, baroque enough, over-the-top enough, to seem promising. I would not cut off McGehee and Siegel's funding until I had seen their second movie.

That is a long, breathless sentence, but so is the film. The destined man is one "Damon Bradley".

So Tomei, flying off to Italy for reasons we cannot pause to explain, meets charming, handsome, fibber-tigebitch Robert Downey Jr - D.B. or not D.B.? - who says he is the man of her dreams.

We must not spoil the suspense for you, and there is little enough to go around anyway. Everything that

in *Moonstruck* seemed fresh and winning is here tritely contrived or tourist-italianate. "Even Estaly we live for pleasure, for food, for love..." says the movie's cliché Italian charmer (Joaquim De Almeida); and every waiter and porter, peasant and fisherman, seems ready to stop dead - preferably under the stars - to discuss life and love.

For all the chaos that sometimes ensues when slave colonies cross-breed in Hollywood, at least it ensures that news gets around: that one group will manage to tell the other that history *has* moved on since *Three Coins In The Fountain*, *Roman Holiday* and *Gidget Goes To Rome*.

## Cinderella: A Gothic Operetta

**N**ow here is a surprise. For his latest piece Lindsay Kemp offers us a modest show, simply staged on a minimal set, in which understatement and subtlety draw us to the truth...

Only kidding. *Cinderella*, *A Gothic Operetta* is the usual Kemp blend of camp, parody and baroque excess, dripping with references and histrionically staged. (If you are struggling to place Kemp, he is the one who makes Julian Clary look the model of restraint). Those who like their shows rich and strange may admire *Cinderella*; I found it indigestible and surprisingly unilluminating.

Kemp's intent, the programme note advises us, is to take the *Cinderella* story and excavate the cruelty and hypocrisy that lie beneath it, using satire, melodrama, cinematic and theatrical allusion to jangle your expectations. Grand Guignol, Cocteau and pantomime collide, styles are parodied and plundered - attending a Kemp show is a bit like walking into an overflowing junk shop, where exotic treasures and monstrous creations are piled on top of one another and you never know what you will bump into next.

Here, *Cinders* is no sweet little innocent, but a mute, bestial creature peeping out from a mane of tangled hair, who has been caged by her ugly sisters and raped by her father. The prince is no handsome bulk, but a mad Ludwig figure, played by Kemp himself in a wild wig. This ageing buffoon shows far more interest in his guardians than in *Cinderella*, but is hustled



More interested in guardsman: Lindsay Kemp as the ageing Prince, with Francois Testory

Alastair Macaulay

## Theatre/Alastair Macaulay

### The Winter Guest

**W**e always want -

at one and the same time - to be independent of other people. This truth is most striking between lovers or married couples; but *The Winter Guest*, the tender new play by Sharman Macdonald (author of *When I Was a Girl I Used to Scream and Shout and Shakes*), shows the conflict between dependence and independence among friends and neighbours.

There is not one adult male in sight. The scene is a town on the west coast of Scotland.

The cast of eight comprises four adult women and four children, seen almost always in couples.

Elspeth (Phyllida Law), a greying widow, talks to her daughter Frances (Sian Thomas). Frances' teenage son Alex (Christian Zanone) starts a clumsy relationship with a local girl Nita (Ariane Cockburn). Two young boys, Tom and Sam, play and chortle about the longer-for approach of puberty and the uncertainty of future employment. Two elderly women, Chloe (Sandra Vee) and Lily (Sheila Reid), wait for the bus and talk of routines and trivia.

Though most of the action occurs in Frances's house, on the road outside, and on the icy beach, the overpowering impression on everything is

the beautiful cyclorama of grey

sea and sky. The designs are by Robin Don, lighting by Peter Mumford. The production, currently in Leeds and due to transfer to London's Almeida Theatre, is directed by the actor Alan Rickman.

Early on, a certain amount of precious contrivance in the writing becomes apparent.

Chloe: "I remember shoes."

Lily: "I remember buses."

Whereupon Chloe embarks on a sub-Milk Wood nostalgia for various shoes. Wistful sentimentality is much in evidence, too. But Macdonald's main purpose is to show how each conversation runs along at least three separate lines simultaneously, thereby deepening the mental scope of the play beyond its initially narrow confines. Sometimes she lets characters rattle on, until, within a single speech, they contradict themselves. Elspeth starts saying to Frances that she certainly doesn't need her, but she carries on to the point of saying "A person needs to be needed. And if you don't need me... you could lie."

Rickman has encouraged his cast to make the most of this overlap of contrasting thoughts, so that the actors often string two, three or four separate sentences together in one breath. The precision and sentimentality of the writing never vanish, but they become increasingly submerged by

larger issues. Chloe and Lily's final scene hinges on a fall. Chloe has just experienced which makes her think of a recent sermon, comparing humans to ephemeral dragonflies. "Are we maggots in the slime, Lily?" Lily reminds her that next week's funeral is of someone they both knew: "We were practically in at the death. You'll not fall while I'm here. They're all right, dragonflies."

Macdonald's sheer lightness of touch here and elsewhere, is fine and touching. Yet the play ends with Sam, alone in the fog on the icy rocks, calling in fear to Tom, who is out of sight and earshot. A poignant, haunting image.

It is splendid to watch four of Britain's finest actresses together, and the four child actors are almost as good. Elspeth is the most complex role, and Law is especially good. Rickman, who helped to commission *The Winter Guest* from Macdonald, shows considerable skill as a director, not least in pacing. Nothing rings false. Humour, eccentricity, stoicism, despair, loneliness, affection, playfulness, are all touchingly present, side by side by side.

At the Courtyard Theatre, West Yorkshire Playhouse, until February 18. Then at the Almeida Theatre, London N1.

## INTERNATIONAL ARTS GUIDE

### AMSTERDAM

**CONCERTS**  
Het Concertgebouw Tel: (020) 571 6345

● Semiramide: by Rossini. Jon Marin conducts the Royal Symphony Orchestra at 1 pm; Jan 28

● The Royal Concertgebouw Orchestra: Valery Gergiev conducts Bartók and Stravinsky at 8.15 pm; Jan 26, 27

**OPERA/BALLET**  
Het Muziektheater Tel: (020) 551 8922

● L'italiana in Algeri: by Rossini. Produced by Dario Fo, conducted Alberto Zedda at 8 pm; Jan 26

**BERLIN**  
GALLERIES  
Neue Nationalgalerie Tel: (030) 266 2653

● George Groz, Berlin-New York: exhibition of the German Dadaist who emigrated to the US; to April 17

**DEUTSCHE OPER** Tel: (030) 341 9249  
● Aida: by Verdi. Conductor Götz Soltau, production by Götz

Friedrich at 7 pm; Jan 26 (8 pm)  
● Ballet Evening: conducted by Sebastian Lang-Lessing, Nacho Duato, Glen Tetley and Harris Mann. Maudamoulin choreograph work by Debussy, Poulenq and Stravinsky at 7 pm; Jan 27 (7.30 pm)

● Der Fliegende Holländer: by Wagner. Conducted by Helmuth Röhrer, production by Gustav Rudolf Seliger at 7 pm; Jan 31

● Madama Butterfly: by Puccini. Conductor Sebastian Lang-Lessing, production by Pier Luigi Samaritani at 7 pm; Jan 26 (7.30 pm)

into marriage by his grim widowed mother. The whole thing is staged on a rampant Gothic set and mimed extravagantly by the cast.

This would do for most shows, but this one carries on recklessly. The palace is a corrupt Hapsburgian place, yet the setting is a tropical colony. While the prince clearly favours young Rupert, Cinders has her eye on Damini, a dashing young guardswoman. After the wedding (a disappointing affair with the prince turning up drunk), there is a spot of bed-hopping, which culminates in Cinders clotheing her new hus-

band near to death as his attentions remind her of her father's rape. Just as you are taking this on board, Damini ups and throats the prince's mum and a revolution breaks out. Turns out he was a republican all along. Cinders saves the prince... but by this stage, you have no appetite for any more.

The trouble is, you need none of this. The *Cinderella* story is cruel enough and politically suspect enough unadorned. Even a basic pantomime will reveal this much, and a pantomime usually has the added attraction of being funny. Here, the comedy is pecu-

narily laboured and clumsy and the arch, parodic style of performance cannot support the political and sexual baggage. It is not revealing; neither is it fun.

But Kemp goes on. There are some nice moments - Cinderella has a wonderful pair of gold slippers that light up in the dark - and the final image of Cinders pushing her deranged husband around in a wheelchair is touching, but by this time, your capacity for being touched has been bludgeoned to death.

Sadler's Wells until February 4

examples of all 103 designs by Hiroshima Kazuo, the world's greatest basketmaker; to Jan 9

**OPERA/BALLET**

Washington Opera Tel: (202) 416 7800

● L'Elisir d'Amore: by Donizetti. Produced by John Copeley, conducted by Edoardo Müller at 8 pm; Jan 28; Feb 3

● Otello: by Verdi. Conductor Carlo Rizzi, director Elijah Moshinsky. In English with English subtitles at 7.30 pm; Jan 26; Feb 1

● Troilus and Cressida: by Walton. An Opera North production conducted by Richard Hickox and directed by Matthew Warchus at 7.30 pm; Jan 30; Feb 2

**THEATRE**

Barbican Tel: (0171) 633 8891

● New England: World premiere of Richard Nelson's new play. No performance 12-15th Dec., otherwise at 7.15 pm; Feb 3

● National, Lyttelton Tel: (0171) 928 2252

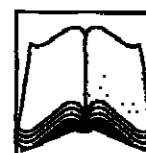
● The Children's Hour: by Lillian Hellman, directed by Howard Davies at 7.30 pm; Feb 3

● Figaro's Wedding: in house debut for conductor Derrick Inouye at 7.30 pm; Feb 3

● King Priam: a new production of Tippett's opera that opens the London festival - Tippett: Visions of Paradise, to celebrate the composer's 90th birthday at 7.30 pm; Feb 3

● Rigoletto: Jonathan Miller's updated version of Verdi's opera where the duke is a mafia boss at 7.30 pm; Jan 27; Feb 1

# Unlocking secrets of unemployment



Over the past 20 years, unemployment in the European Union has quadrupled, from a rate of less than 3 per cent in 1970 to more than 10 per cent today. There are more than 18m people out of work in Europe. In the UK, the unemployment rate averaged 3½ per cent in the 1970s, rose to 9 per cent in the 1980s, and now stands at 8.5 per cent.

Unemployment is the biggest economic challenge facing Europe. There is no shortage of official discussion. Last year alone brought the Detroit jobs summit, the Organisation for Economic Co-operation and Development unemployment study and the European Commission white paper on growth, competitiveness and employment. But these efforts will come to naught without new ideas which officials can beg, borrow or steal. Edmund Phelps's book is a substantial contribution to the analysis of swings in unemployment from one cycle to the next.

Phelps's starting point is the concept of the natural rate of unemployment, developed in the 1960s by Milton Friedman and Phelps himself. The natural rate is the level of unemployment to which the economy would tend, given the institutional nature of wage bargaining and the imperfections in labour markets.

There is nothing optimal about this level of unemployment. On the contrary, policy can, and at the moment should, aim to reduce the natural rate. The value of the concept lies in showing that unemployment can deviate from the natural rate only temporarily, when unexpected changes in inflation take employers and employees by surprise.

For example, if nominal demand and inflation rise faster than expected, businesses find it attractive to hire more labour at the current wage rate. If nominal demand and inflation fall faster than expected, they will lay off labour at the current wage rate. Sooner or later, however, wages will adjust to reflect the underlying state of the labour market and unemployment will return to

**STRUCTURAL SLUMPS**  
By Edmund Phelps  
Harvard University Press, 1994.  
420 pages, £39.95 (\$49.95)

fits which reduce the attractiveness of work will raise the supply wage. Higher real interest rates will lower the demand wage (because businesses make an investment when they hire people and incur training costs). A higher interest rate means that companies recoup their investment only if they can pay lower wages for a given state of demand for their products.

So much for the theory. Does it help to explain higher European unemployment? Phelps argues that much of this rise can be explained by three factors: increases in taxes and benefits, the rise in real interest rates in the 1970s, and the impact of the oil price shocks.

None of these points is particularly novel, with the exception perhaps of the stress laid on the role of real interest rates. But they may be limited in explaining European unemployment levels.

For example, unemployment remains stubbornly high even though the oil price shocks of the 1970s have worn off. And higher real interest rates have not led to a rise in the natural rate in the US comparable with that in Europe. We are left with the old chestnut of European social welfare, "rigid" labour markets and inflexible real wages.

The empirical relevance of the factors stressed by Phelps is, as yet, unproven; there can be no doubt about the value of the intellectual enterprise. Phelps integrates earlier thinking on the labour market into a theory of the dynamics of the natural rate.

Understanding the structure of the natural rate is the necessary first step in the design of measures to tackle the unemployment problem. This book is sure to stimulate further research. Some readers will find that the use of mathematics falls between the two stools of rigour and accessibility to the non-specialist. But perseverance will bring a wealth of insights into the nature of unemployment.

THE NATURAL RATE

Although neither Friedman nor Phelps argued that the natural rate was constant, empirical studies of the US showed that the assumption of a constant rate did little injustice to the facts. But the sharp rise in European unemployment in the 1980s posed a challenge to their theories. It is implausible that unemployment remained high for more than a decade because wage bargainers had not caught up with the new commitment of governments to low inflation.

If slow adjustment of nominal wage rates cannot explain persistently high unemployment, what can? One explanation is that as unemployment goes up, the natural rate itself also rises - the "hysteresis" effect. Unemployment reduces both the willingness and ability of the individuals affected to hold down a job.

There is, however, little direct evidence to support the hysteresis hypothesis. And US experience contradicts it, since unemployment then returns to the previous natural rate after a recession. Are there competing explanations?

Enter Phelps mark II. In his new book, Phelps argues that non-monetary factors produce systematic changes over time in the natural rate.

Central to this is his view of the labour market. It differs from most models in that an unemployed worker cannot get a job by offering to work for less than the current wage.

Even if workers are identical, companies will pay a premium to existing staff to ensure an adequate performance level.

The wage that is necessary to retain and motivate the existing staff (the supply wage) will, in equilibrium, be equal to the wage that companies can afford to pay given the demand for their products (the demand wage). Factors that raise the supply wage relative to the demand wage will lead to an increase in the natural rate of unemployment.

For example, taxes and bene-

fits which reduce the attractiveness of work will raise the supply wage. Higher real interest rates will lower the demand wage (because businesses make an investment when they hire people and incur training costs). A higher interest rate means that companies recoup their investment only if they can pay lower wages for a given state of demand for their products.

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Mervyn King

The reviewer is executive director and chief economist, Bank of England

**T**he British Treasury's latest monthly Comparison of Independent Forecasts may not tell us much about the UK economy (the Treasury has always paid too much attention to forecasts, its own and other people's). But its tabulation of how the independent forecasts have changed over the past 12 months tells us a great deal about the trend of spot economic news and the impact of that news on economic opinion.

All the "good" indicators show an upward trend. For instance, as 1994 progressed, GDP growth for 1995 was estimated at successively higher amounts. There has also been a spectacular improvement in the current balance of payments forecasts for 1995 - from a deficit of around £12bn to near balance.

Such a change is to be expected after a year of rapid, but apparently sustainable, recovery, during which growth reached 3.7 per cent excluding the volatile oil sector. The current balance of payments deficit confounded expectations by shrinking rapidly and claimant unemployment dropped by 1.2 percentage points. A miracle, it only fits its elements well.

For example, unemployment remains stubbornly high even though the oil price shocks of the 1970s have worn off. And higher real interest rates have not led to a rise in the natural rate in the US comparable with that in Europe. We are left with the old chestnut of European social welfare, "rigid" labour markets and inflexible real wages.

The proximate reasons for this mood are well known. Export-led growth may be as yet, unproven, there can be no doubt about the value of the intellectual enterprise. Phelps integrates earlier thinking on the labour market into a theory of the dynamics of the natural rate.

Understanding the structure of the natural rate is the necessary first step in the design of measures to tackle the unemployment problem. This book is sure to stimulate further research. Some readers will find that the use of mathematics falls between the two stools of rigour and accessibility to the non-specialist. But perseverance will bring a wealth of insights into the nature of unemployment.

Nevertheless, it will not be in anyone's interest for the recovery to go up at a later date in a puff of inflationary smoke; and its speed does have to be watched. The policy framework which underlies the briefing for the monthly meetings that the chancellor, Kenneth Clarke, holds with the Bank of England governor, Eddie George, is illustrated by the second of the accompanying charts. The horizontal line shows normal capacity working. Above it, inflation takes off; below it,

negative and job growth has come from outside the manufacturing sector.

The CBI results may throw doubt on the reliability of the flash GDP estimate. More likely, they underline the contrast between the fortunes of manufacturing and the remaining four-fifths of the economy.

This contrast may also help to explain the paradox of never-had-it-been-so-good economic indicators (which are predominantly derived from manufacturing) and the mood captured in the cartoon. One might, however, have thought that the mass of doomsayers, who have so long berated the performance of manufacturing, might have raised one cheer (as they certainly

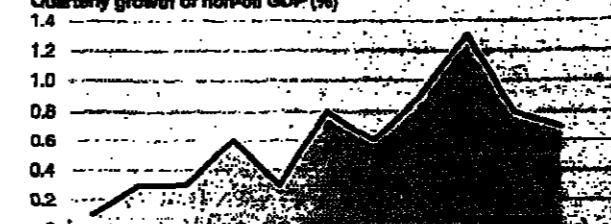
## ECONOMIC VIEWPOINT

# The 'if only' UK miracle

By Samuel Brittan

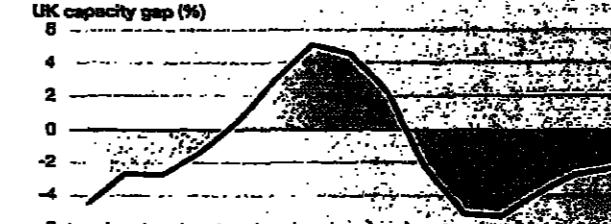
**Output growth may be moderating**

Quarterly growth of non-oil GDP (%)



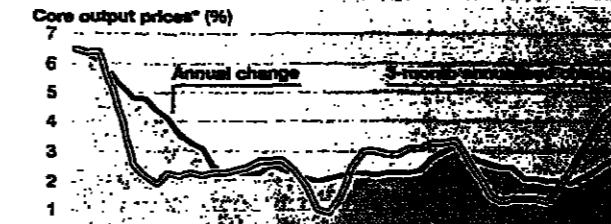
**some capacity gap remains**

UK capacity gap (%)



**but factory gate inflation rises**

Core output prices (%)



**Source: Observers**

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above the negligible levels prevailing in recent years to more like the average of the 1980s.

Price increases are being fed by raw materials and intermediate goods. The rest are at the consumer end. The reason basic materials are under pressure is that the unexpectedly vigorous upturn is world wide. Commodity prices, which hitherto have only been recovering from earlier falls are beginning to register long-term gains.

One moral is that the 1 to 3% per cent inflation band (the lower half of the original 1 to 4 per cent band), which chancellor Clarke now accepts as a target, may be too narrow to cope with the ebb and flow of economic life. An attempt to stay in literally within that band is, like all fine tuning, liable to be destabilising.

The British Treasury has created a rod for its own back by accepting too quickly and uncritically the Majority Report of the Retail Prices Index Advisory Committee in favour of maintaining the present distorted headline inflation indicator, which may well rise to 4 per cent over the next few months due to the rise in mortgage rates and excise duties. Not only did false economies lead to the full RPI report not being given to the press; but the press summary did not even devote a single sentence to my opposing minority report.

Meanwhile, there is no need to rush into another base rate increase at the monetary meeting on February 2. There are signs that monetary growth is slowing down. Flat or slightly falling house prices - which have already triggered a downturn in construction orders - together with alarmist media discussion of job uncertainties are restraining consumer demand. And the Mexican debacle may make international investors more risk averse and, thus, slightly restrain the world upturn. Last week UK base rate increases took place only on December 3 and its effects have still not worked their way through. The near certainty of an upward US move at the Fed meeting the day before may tempt "Steady Eddie" to a macho gesture. He should, however, resist it. There will be time to consider a base rate increase in early March when there are a few more signals to what has been happening so far in 1995.

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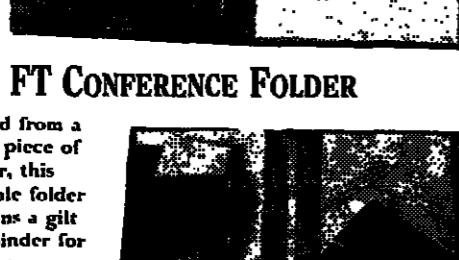


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Thursday January 26 1995

## Putting Italy's interests first

Mr Lamberto Dini, the new Italian prime minister, won a parliamentary vote of confidence yesterday by the apparently comfortable margin of 302 votes to 39. However, in reality, Mr Dini's position is extremely precarious. Mr Silvio Berlusconi, leader of the conservative Freedom Alliance, whose deputies abstained, seems to have opted to keep Mr Dini in power simply for as long as it suits his own interests.

Mr Dini, formerly Treasury minister in Mr Berlusconi's government, heads an administration entirely composed of non-politicians. He aims to pass emergency reforms, above all to prune public law, and then resign to pave the way for new elections. Mr Dini's success is far from certain. In a sense, his sole source of strength is his weakness, since the main factor that may sustain his government is the realisation that, if he should fall, Italy's difficulties would become truly desperate.

Mr Dini overcame yesterday's victory to Mr Berlusconi's apparent reasoning that he would damage his own political position by voting down immediately one of the few heavyweights in his former administration. However, by declaring he would tolerate Mr Dini's premiership only issue by issue, and sticking to his demands for early elections, Mr Berlusconi has underlined how Mr Dini's survival hangs on a thread.

Mr Dini yesterday needed the support of the former communist Democratic Party of the Left (PDS)

as well as that of the Northern League, Mr Berlusconi's former coalition partners. Since PDS opposition was one of the main reasons why Mr Dini's plans for lower pensions entitlements fumbled last November, the new prime minister can hardly count on solid backing from this quarter for tough budgetary cuts.

Yesterday a report from the Organisation for Economic Co-operation and Development underlined that action to curb Italy's "high and spiralling public debt" is becoming more urgent all the time, even though output growth, inflation and current account are all better than expected a year ago.

On the evidence of yesterday's parliamentary vote, assembling a majority to restore order to Italy's public finances and credibility to its government will be enormously exacting. Italians hoped last March's elections would produce a new breed of politicians with the steadfastness to guide the country out of crisis, yet parliament's capacity to make the right decisions has remained painfully inadequate.

Much depends still on the businessman-turned-politician from whom so much was expected last spring. It may be too much to hope that Mr Berlusconi will put his country's interests ahead of his own by calling on his deputies to give solid backing to Mr Dini's reform efforts. Yet unless this support is forthcoming, Italy's unstable circumstances will become much worse.

## Armed struggle

The current swirl of rumour that British-based Westland may be about to lose an order for Royal Air Force transport helicopters to the US manufacturer Boeing may lack substance. But, at the very least, it is another hint that European defence contractors are having a hard time beating off US competition. As the British order for 25 Lockheed transport aircraft before Christmas showed, hard-pressed European defence ministries and treasuries are finding it difficult to justify funding the development and production of new defence equipment when advanced American equipment may be had cheaply off the shelf.

In Westland's case, special factors may yet swing the decision in the company's favour. Westland has good export prospects for the aircraft which would be blighted if its largest potential home buyer rejected it. Perhaps more importantly, the government more or less committed itself to buying the EH101 when it placed the development contract in 1987.

Yet even if the EH101 does eventually win an order from the RAF, the main reason for concern – its cost – does shed light on the difficulty of maintaining a European defence base. Compared with the US, Europe's arms industry is small and fractured. That leads to shorter production runs, higher overhead costs and less efficient spending of research and development funds than is achieved in the US. The result is that Europe pays proportionately more for a less effective defence.

## Clinton's lessons

What has President Bill Clinton learnt from his first two years in office? The answer he gave to that question in Tuesday's State of the Union message was lengthy, but coherent. He has recognised his mistakes, and claims to have learnt from them. In truth, however, his chances of winning a second term depend more on the Republicans than on Mr Clinton.

One aspect of the speech – its length, a full 81 minutes – gave little sign of a reformed president. Yet in other, more important respects, the Republicans' landslide in November had clearly left its mark. The main lesson there is that he has learnt is to be pragmatic.

Some in the administration have argued that he should take his relative impotence as an opportunity to appear bold. Since even moderate proposals are unlikely to be enacted, they argue, why not make more ambitious gestures? The proposals he outlined late last year, for a "Middle Class Bill of Rights", were an uneasy compromise between these arguments and more conservative voices. Yet the lack of specific proposals in Tuesday's speech indicates a growing reluctance to spend time on detailed programmes that are doomed to fail, radical or otherwise.

An often-mentioned exception to this approach might have been foreign policy, the traditional domain of presidents. Yet this, too, was conspicuous by its absence. Apart from a brief endorsement of the Mexican \$40bn loan guarantee package, Mr Clinton

As the peace dividend squeezes defence budgets, the pressure on European companies will increase. The current struggle over the choice of a US or European attack helicopter for the Netherlands, and the debate over transport helicopters for the RAF, would have been quickly resolved in favour of the home teams a decade ago. Now they are finely balanced.

There are signs that European politicians and business are beginning to tackle the problem. For example, Mr Henri Conze, head of French arms procurement, Mr Louis Gallois, chairman of Aérospatiale, and Mr Roger Freeman, the British defence procurement minister, have all argued that change must come. Yet thus far the language is tentative. There is much talk of joint ventures on future weapons, and little discussion of rationalisation now.

While the practical problems of rationalisation are huge, a gradualist approach may not be sufficient, given the speed with which US manufacturers are penetrating the European market. If European defence manufacturers are to continue to deserve the support of European governments, they must move quickly to cut their cost bases and duplicate effort. Politicians, for their part, must oil the wheels of the process and not stand on sovereignty unnecessarily. Economics already argues for a buy-American policy in Europe. If arms makers do not change that calculation by hanging together, they will assuredly hang separately.

**Clinton's lessons**

ton did not take the opportunity to stake out his turf as a foreign policy president.

Again, this is partly a reflection of his weakened position. Regardless of whether he would like to concentrate on taking the lead in foreign policy, it is far from clear that it is open to him. As the battle to pass the Mexican package shows, Senator Jesse Helms, new chairman of the Senate Foreign Relations Committee, seems determined to keep the president on an unusually tight rein abroad.

Yet the neglect of foreign affairs was linked to the other key element of Mr Clinton's speech: a determination, on core domestic issues, not to allow his mandate of 1992 to be entirely eclipsed by that of 1994. He cannot veto a constitutional amendment to balance the federal budget, which he opposes, but he will stop measures to reverse his past efforts, such as the 1993 crime bill. And although willing to work with the Republicans in many areas, he vowed to draw the line at measures that benefited the rich at the expense of the working and middle classes.

There may be scope here for a workable compromise between Mr Clinton and the new Congress. As he noted, both can agree that the electorate voted for "change" in 1992 and 1994. Judging by Tuesday's speech, they now disagree, however, on the scope for delivering change in anything but modest doses. If the new right-wing revolutionaries on Capitol Hill ignore this fact, Mr Clinton could yet recover.

An often-mentioned exception to this approach might have been foreign policy, the traditional domain of presidents. Yet this, too, was conspicuous by its absence. Apart from a brief endorsement of the Mexican \$40bn loan guarantee package, Mr Clinton

had to be done about Turkey? For west European leaders – anxious about Algeria, bogged down in Bosnia, harassed on the home front, rattled by Russia, uncertain of US intentions – that may not seem the most urgent question of 1995. But Turkey stands at the intersection of many if not all these other crises, and has entered the new year floundering in multiple crises of its own, all of which are getting worse. Already a haggard acha, it could become one of Europe's most painful trouble spots before the year is out.

Most immediate and obvious is the economic crisis, dramatised by figures released this month. Wholesale prices rose by 148.6 per cent in 1994, and consumer prices by 125.5 per cent – both figures the highest ever recorded – while gross domestic product fell by 6 per cent in the first nine months of the year. Yet Turkey's population is growing at 2.2 per cent annually. Unemployment is rising, and the loss of purchasing power for those employed in Turkey's bloated public sector has been drastic.

In the south-east of the country, a war between the Turkish state and Kurdish separatists is costing an estimated \$5bn to \$10bn a year – between 30 and 35 per cent of government revenues. It is also poisoning Turkey's domestic politics and increasingly its foreign relations.

In November alone, according to Turkey's independent Human Rights Association, 383 people were killed in political violence, 21 of them under torture or in custody. Forty-one Kurdish villages were forcibly evacuated by the security forces. The association published a list of 105 "politicians, intellectuals and scientists" in prison at the end of the month – charged with crimes of opinion rather than direct involvement in violence.

All these crises are aggravated, and Turkey's ability to resolve them is jeopardised, by a crisis of its political system. There are two conservative parties, with broadly similar liberal economic policies, which between them could command a comfortable majority in parliament, and which agree in principle on four central issues: privatisation, economic stabilisation, the customs union with the EU, and "democratisation", which means introducing full freedom of speech and association and getting rid of the last vestiges of military rule. But these two parties have so far been unable to co-operate, let alone merge. The bitter personal rivalry between their founders – the late Turgut Ozal, who died in 1983, and his successor as president of the republic, Mr Suleyman Demirel – has been carried on by the present party leaders.

Since 1981 the Motherland party (ANAP) founded by Ozal has been in opposition, while Mr Demirel's True Path party has governed in coalition with the SHP. The result – first under Mr Demirel himself and then, since he was elected president on Ozal's death, under Mrs Tansu Ciller – has been a government of nearly paralysed, tainted by scandal and more and more unpopular.

Only last April, after suffering a collapse of the currency and staggering through mid-term local elections, did the coalition find the courage to introduce a stabilisation programme which its economic advisers had been urging on it ever since it came to power. Mr Demirel still refuses to admit that such measures should have been taken under his premiership in 1992 – a year when, according to him, "there was no trouble in Turkey".

Mrs Ciller's coalition may well not survive a congress this weekend at which the SHP, her social democratic partner, is to unite with another leftwing party. The proposed new party is widely expected to replace Mr Karayalcin with a more hardline leftwing leader. According to one of her closest advisers, Mrs Ciller is resigned to the break-up of the coalition, but intends to soldier on as leader of a minority government.

Mr Mesut Yilmaz, the ANAP leader, insists on early elections in the autumn as his price for joining the government. Mrs Ciller is unwilling to pay this price, believing that imminent elections would be incompatible with the confidence and stability needed for her austere package to work, and that cross-party support can be mustered for the reforms on which she and Mr Yilmaz are in broad agreement. Yet few outside her immediate entourage believe this strategy will work, or gives Mrs Ciller any serious chance of staying in office beyond the autumn, whatever she does.

A general election, due by late 1996, is thus widely expected by the end of 1995. President Demirel himself points out that no Turkish legislature has served the full five-year term accorded it by the 1982 constitution. But an election in present circumstances could bring to a head the most profound of all Turkey's crises, which is the deep split in the country between secularists, devoted to the legacy of the

republic's founder, Mustafa Kemal Ataturk, and those who seek to reassess the centrality of Islam in Turkish politics and society.

The Refah or Welfare party, which expresses the latter aspiration, is currently in the lead in opinion polls, with up to 25 per cent support. Since last March's local elections, it has administered the two largest Turkish cities, Istanbul and Ankara.

## Pulled in all directions

Turkey is caught up in economic and political crises that the rest of Europe must not ignore, says Edward Mortimer

erless to influence the judicial process. Next week, Mr Karayalcin will meet his British, French, German and Italian colleagues in London, in an attempt to break the stalemate before the March meeting.

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worker encountered last week in a Cappadocian village, who in the next breath disclaimed any personal interest in religion.

The fact that such disgruntled voters are turning to an avowedly Islamic party implies, as does the muffled debate about a separate Kurdish identity, a crisis of legitimacy for the 70-year-old republican. Until recently, Ataturk's heritage effectively ruled out any questioning of either nationalism or secularism as basic ingredients of modernity. Religion was firmly subordinated to the state, and no language or identity other than Turkish was admitted. But the very success of modernisation, especially since the 1980s when almost the whole of Turkey's economy and society was opened up to global influences, made it impossible to contain Turkish politics within this ideological straitjacket any longer.

Turgut Ozal, who as prime minister from 1983 to 1989 had pushed forward this climactic stage of modernisation, used his last presidential years (1989-93) to give discreet expression to alternative identities which earlier stages had so ruthlessly suppressed. He publicly recalled a Kurdish-speaking grand-

mother, and seemed at the time of his death to be nudging the nation towards acceptance of Kurdish political identity in some form. Similarly, while clearly no fundamentalist, he displayed a reverence and affection for Islam which his predecessors had eschewed, and hinted that the late Ottoman caliphate might not have been quite as backward or obscurantist as Kemalist orthodoxy had painted it.

Such musings provoked deep anxiety among a Turkish elite which had thoroughly espoused secularism, especially women's emancipation, and which desperately feared a relapse into fundamentalism. The rise of Refah, an opportunist and outwardly moderate Islamic party with a fundamentalist hard core, has raised that anxiety almost to panic level. In the view of one western diplomat: "The Kemalists [followers of Ataturk] are as much part of the problem as the fundamentalists." The problem in his view is not so much the danger of an Iranian-style Islamic revolution (a remote contingency) as that of a deep polarisation of Turkish society under democracy no longer workable.

Iran is a neighbour, but its Shia revolution offers no model for Turkey, where Sunni Islam has always been dominant. (Turkey's Shia minority, known as Alevis, are in fact the most fervent devotees of secularism.)

**A**lgeria, albeit geographically further off, now casts a longer shadow over Turkey than Iran. In December 1991 the Islamic Salvation Front (FIS) won a plurality of votes in the first ballot of an Algerian general election, which it would have converted into a majority of seats in the second ballot. The army stepped in and cancelled the vote. At the time, much of the westernised Algerian elite breathed a sigh of relief. Three years later, the country is mired in a barbaric civil war.

Would the Turkish elite and armed forces make the same mistake? Of course, they hope not to get to that point. One thing Mrs Ciller and Mr Yilmaz agree on is that a new electoral system should be introduced to ensure that all secular parties make common cause against Refah. Ironically, the system they favour is the same two-ballot, single-member constituency one that would have handed victory to the Algerian FIS.

Others, less enamoured of electoral gimmicks, believe Refah can still be defeated if another alternative to the prevailing corruption and chaos is offered. On the left, Mr Bülent Ecevit, three times prime minister in the 1970s, has gained in popularity by holding aloof from the present coalition and is trying to raise the banner of a revived Kemalism. So is Professor Mumtaz Soysal, who recently resigned as foreign minister and is now a candidate for the leadership of the reunited left. But they are on bad terms with each other, and both, when interviewed earlier this month, seemed to cling to an old-style statist socialism which is scarcely credible in the 1990s.

More interesting is the New Democracy party, formed last month by Mr Cem Boyner, a charismatic 39-year-old textile magnate. With a touch of populism he promised to end the war in the southeast, break up the parasitical public sector, and introduce a genuine separation of religion from the state along the lines of the US First Amendment. Mr Boyner, shrugged off by worldly-wise Ankara pundits as a typical Istanbul smart-aleck, retorts that it is he, not they, who is in touch with the real public opinion of modern Turkey.

Time will tell, but time is short. For the moment, Refah is still riding the groundswell of public anger against a political class that seems content to fiddle while Turkey burns. President Demirel, the armed forces, and the European Union may all soon find themselves facing a Turkish parliament in which Refah is the dominant force. They would then have to decide whether cohabitation or confrontation involves the greater risk.

## OBSERVER

## Polka dottiness

■ When is a resignation not a resignation? When it is in Warsaw. Take foreign minister Andrzej Olechowski. He first resigned last October, then suspended his going until the end of 1994. Then he said he would leave on new year's day.

Whereupon he said he was definitely going in the middle of January, even getting prime minister Waldemar Pawlak and president Walesa to agree to let him go. Then Walesa changed his mind and refused to accept the appointment. So Olechowski is still waiting.

Promising to join Olechowski in Warsaw is Zenon Smolarek, Poland's chief of police. Andrzej Olechowski – interior minister – said Smolarek will resign this week. Wait a minute: didn't Smolarek already resign, in 1992? Indeed he did. Then he handed in his notice after newspaper accused him of turning a blind eye to corruption in the police force of the city of Poznan.

Smolarek said he couldn't stay on, after such smears. But a lengthy search for a successor – punctuated by another attempt by Smolarek to resign – ended in Pawlak asking him to carry on. Which he did.

Now Smolarek says that he has discovered that Smolarek tried to influence witnesses in the

investigation which followed the initial newspaper reports. Smolarek must go, says Milczanowski. President Walesa agrees. But prime minister Pawlak says he has more pressing concerns than resolving Smolarek's fate.

Oh go on then – get your feet under the desk again.

## WHO wants it

■ Wanted: experts in public health, sociology, development economics, demography and environmental sciences, for well-paid jobs with the World Health Organisation, in order to assist in establishing a new international medical research centre. Must be flexible self-starters, and highly qualified.





## INTERNATIONAL COMPANIES AND FINANCE

## Air France may link with rivals in recovery strategy

By John Riddick in Paris and Michael Skapinker in London

Air France, the loss-making state-owned airline, is discussing alliances with international carriers, including American Airlines and Japan Airlines, with the aim of strengthening its position in the US and Asian markets.

Mr Christian Blanc, chairman, also outlined further steps in his recovery strategy, including a new round of cost cutting measures and the cancellation of options and orders for aircraft from Boeing and Airbus.

American said it had discussions with different airlines, but confirmed that Air France was one of the carriers it was talking to. Japan Airlines declined to comment.

Officials at Air France said that alliances with international carriers were necessary to curb costs, increase traffic and improve its network of destinations, but Mr Blanc played down the prospect of an imminent deal.

"We are in no hurry," he said in an interview with Le Monde. "There is no question that, in a position of weakness, we will become an appendage

of this or that air transport giant."

An agreement between American and Air France would follow tie-ups between other US and European airlines. United Airlines has a code-sharing agreement with Lufthansa of Germany, and British Airways and KLM of the Netherlands have links with USAir and Northwest Airlines respectively.

Mr Blanc said that losses were being reduced as a result of a rescue package implemented over the past year. He estimated a net loss of between FFr3.5bn (\$572m) and FFr4.5bn for the 15 months to the end of March, compared with a loss of FFr3.5bn for 1993. But he added that the company was only a quarter of the way towards achieving the objectives of its three-year recovery plan.

This year, Mr Blanc said, further cost-cutting and productivity measures would be implemented. In particular, the airline is to cancel options and orders for aircraft which have been placed since 1990. The cancellations are thought to affect 17 orders, including 10 from Boeing and seven A340s from the European consortium.

Mr Blanc said the company

should be in a position to return to the aircraft market in two years, depending on the success of its recovery strategy. But he claimed that services and schedules would not be affected.

"We will make better use of our fleet," he said. "In September 1995, we will make the same number of flights as in September last year with four fewer aircraft."

Air France said it would also continue to reduce staff. More than 2,000 jobs are expected to be cut this year, without involuntary redundancies, reducing the number of employees to about 37,000. The chairman predicted a double-digit decrease in production costs this year and a decline in purchasing costs of about FFr1.5bn.

Mr Blanc also confirmed plans for Air France to sell its 37.5 per cent stake in Sabena, the Belgian state-owned carrier. "We are now in discussions with the Belgian government. The aim is to buy our stake to sell it to a commercial European company," he said. Swissair has said it is eager to take a significant stake in Sabena to improve its access to the EU market.

Lufthansa result, Page 20

## Pechiney shake-up strengthens Rodier post

By David Buchan in Paris

Pechiney yesterday announced a management reorganisation, allowing Mr Jean-Pierre Rodier, the new head of the French state-controlled packaging and metals group, to consolidate his power.

Mr Jean-Louis Vinciguerra,

By Christopher Brown-Humes in Stockholm

Finland's two leading private-sector banks, Kansallis-Osake-Pankki and Unitas, made losses for the fourth year running in 1994 as they struggled to recover from the loan loss crisis caused by the country's deep recession at the start of the decade.

KOP posted a FIM1.83bn (\$180m) operating deficit, failing to meet its target of halving its 1993 loss of FIM2.65bn. Unitas made a more solid recovery as it cut losses to FIM1.27bn from FIM2.56bn.

Analysts said Unitas had a higher quality customer base than its rival and it had read

interest rate developments better. They suggested Unitas would make a profit in 1995, but were more cautious about prospects for KOP.

Market worries about the health of the Finnish banking sector forced both banks to announce their preliminary figures earlier than planned.

KOP blamed its problems on the financial difficulties of the construction group Puolimatka (which cost it FIM800m), bond trading losses, lower-than-expected earnings from foreign exchange dealing, and a weak stock market at the end of the year which delayed share sales.

Analysts noted that credit losses at FIM2.77bn were still FIM1bn less than in 1993.

The group said Finnish banks were still operating in a difficult environment, hampered by low credit demand, rising interest rates and excess capacity. The bank yesterday stepped up its cost-cutting programme, saying it planned to shed 1,500 jobs - 16 per cent of its workforce - over the next two years.

The performance of Unitas, the holding company for the Union Bank of Finland, was helped by an 11 per cent drop in credit losses to FIM2.65bn, although a FIM500m provision to cover possible future credit losses held back a stronger recovery.

Analysts said the bank was trying to start 1995 with a clean sheet and predicted it could make a profit of up to FIM500m this year. They contrasted a 19 per cent jump in the bank's income to FIM4.41bn with KOP, where income fell 5 per cent to FIM4.85bn. Non-performing loans at Unitas fell more sharply - to FIM2.53bn from FIM3.41bn - compared with KOP, where they fell to FIM3.0bn from FIM7.5m.

KOP aims to return to profit in 1995, helped by a strong recovery in the Finnish economy, lower credit losses, cost-cutting and capital gains. However, Mr Jukka Lepola, banking analyst at Arctos Securities, was sceptical about KOP's chances of reaching the black.

## Putting down roots in Pyongyang

N Korea is latest link in ING's foreign network, says Ronald van de Krol

**E**merging markets are more than just a passing fad for Internationale Nederlanden Groep, the Dutch banking and insurance group which yesterday announced plans to become the first foreign bank to open in North Korea.

In barely 20 years as an international bank, ING Group's banking subsidiary has built a foreign network in countries which were once shunned by bigger, more established competitors but which have become popular hunting grounds for the international banking community.

ING Bank's planned operation in North Korea - a joint venture with a domestic partner, the Korean Foreign Insurance Company - will become part of a longer chain of 77 offices from Budapest to Buenos Aires and Moscow to Tokyo.

In the past year, it has received permission to open offices in Vladivostok, Hanoi, Shanghai and Havana. The

North Korean office, which will be 70 per cent owned by ING Bank, is expected to open in the second quarter of this year.

"The pace of growth will be slower than, say, Hungary if you're talking about eastern Europe," says Mr Hans Yntema, general manager of ING Bank International. "But there is clear interest in North Korea among multinationals."

The pace of growth could accelerate if South Korea's industrial groups receive gov-

ernment permission to invest in the north.

ING Bank has seen extensive changes since the late 1970s, when its foreign operations were limited to a small representative office in New York and a minority stake in a consortium bank in Hong Kong.

The bank, then known as Nederlandsche Middenstandsbank (NMB), sprang into prominence in the early 1990s as a trader in the debt of lesser developed countries (LDCs), mainly in Latin America, helping to create wider secondary markets for LDC asset trading and debt conversion.

It recently bolstered its commitment to the primary capital markets by setting up ING (UK) Capital in London, which aims to capture a greater percentage of new bond and share issues for companies based in emerging markets, particularly eastern Europe.

**A**nother recent development is ING's pursuit of "reinsurance", or the combining of banking and insurance in one financial services company.

The group, which sprang from two domestic mergers that brought together NMB and Nationale-Nederlanden, the Netherlands' largest insurance group, has implemented a bancassurance strategy in the Netherlands.

and is extending the policy to selected markets abroad, including some emerging markets.

ING Group, with assets of more than \$175bn, is Europe's foremost proponent of the idea that banking products can be sold through traditional insurance outlets, and vice-versa. Its banking operations make it the eighth largest bank in Europe, while it ranks as Europe's fifth biggest insurer.

So far, ING Group has begun to pursue bancassurance in mature financial markets such as Italy, Greece and Australia, but also in Hungary, the Czech Republic and Poland.

In Poland, for example, it has been granted a licence to sell life insurance. It plans to find customers not only through a national network of insurance agents, but also through the offices and clients of Bank Śląski, a Polish bank in which it holds a 26 per cent stake.

Although ING's partner in North Korea is an insurance company with a monopoly on domestic non-life insurance, the country is a long way from becoming a prime candidate for the Dutch group's bancassurance philosophy. This is because ING's foreign insurance activities tend to focus on life insurance.

"It will take a while for life insurance to get off the ground in North Korea," Mr Yntema said.

## Results delay at Usinor

By John Riddick

Usinor Saclier, the French state-owned steel producer, yesterday said it was pushing back the announcement of its results for last year and a board meeting to set the budget for 1996.

The announcement and the meeting, due today, will now take place on February 8.

Usinor said the delay was required partly to finalise certain aspects of the budget for this year in the context of the vigorous recovery in the steel sector. Steel prices have risen steadily over recent months, affecting the outlook for companies in the sector.

Industry observers said that the budget for 1995 was of particular importance for Usinor because the group is pressing its case for privatisation.

## Bausch & Lomb in red and faces SEC probe

By Richard Tomkins in New York

accounting practices were appropriate.

The unsuccessful marketing changes were a big factor in the fourth-quarter downturn, but the company also took a \$75m pre-tax charge after reassessing the value of the goodwill attaching to its oral care business.

In addition, it said it was selling its binocular and telescope business.

• Greyhound, the troubled US bus operator, said it faced an SEC inquiry into possible securities law violations.

Investigators are likely to ask whether the company made adequate public disclosures about problems arising from the passenger reservation system the company launched in 1993, and whether there was insider dealing.

This announcement appears as a matter of record only.

## Puerto Quetzal Power Corp.

Guatemala

U.S.\$71,000,000

Project Financing

for a 110 MW Barge Mounted Power Plant at Puerto Quetzal, Guatemala

Arranged by

International Finance Corporation

U.S.\$20,000,000

Term Loan

Provided by

International Finance Corporation

U.S.\$51,000,000

Term Loan

Underwritten by

ING Capital

and provided through participations in the IFC loan by

Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO)

ING Capital

Deutsch-Südamerikanische Bank A.G.

Société Générale

Kansallis-Osake-Pankki

ENRON CORP

IFC

December 1994

## The Korea Development Bank

Established in the Republic of Korea under the Korea Development Bank Act 1953 as amended

U.S.\$200,000,000

Floating Rate Notes due 1997

For the six month period 25th January, 1995 to 25th July, 1995 the Notes will carry an interest rate of 6.8125% per annum with a coupon amount of U.S. \$3,423.17 per U.S. \$100,000 Note, payable on 25th July, 1995.

Listed on the Luxembourg Stock Exchange

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MORTGAGE SECURITIES (NO.3) PLC

£117,000,000 Multi-Class Mortgage Backed Floating Rate Notes due 2035

Notice is hereby given that, pursuant to Condition 5(c) of the Notes, the Issuer shall redeem:

£5,267.00 per Class A1 Note

20.00 per Class A2 Note

20.00 per Class A3 Note

on the next Interest Payment Date, being January 31, 1995.

MORTGAGE SECURITIES (NO.3) PLC

Dated: January 26, 1995

JPY 15,000,000,000

BRITISH AIRPORTS FINANCE B.V.

Floating Rate Guaranteed Notes due 1996

Interest Rate 2.475% p. a.

Interest Period January 25, 1995

July 25, 1995

Interest Amount due on

July 25, 1995

YEN 10,000,000 YEN 124,438

BANQUE GÉNÉRALE DU LUXEMBOURG

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## CREDIT LYONNAIS CANADA

USD 18,000,000 Subordinated FRN Guaranteed Debentures due 2001

Noteholders are hereby informed that the rate applicable for the ninth interest period will be fixed at 7.025%.

The coupon #9 will be payable at the price of USD

5.532 - on July 25th, 1995,

representing 181 days of interest, covering the period

from January 25th, 1995 to July 24th, 1995 inclusive.

The Reference Agent and Principal Paying Agent

CREDIT LYONNAIS

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## European Coal and Steel Community

Y11200,000,000

Floating rate notes 2001

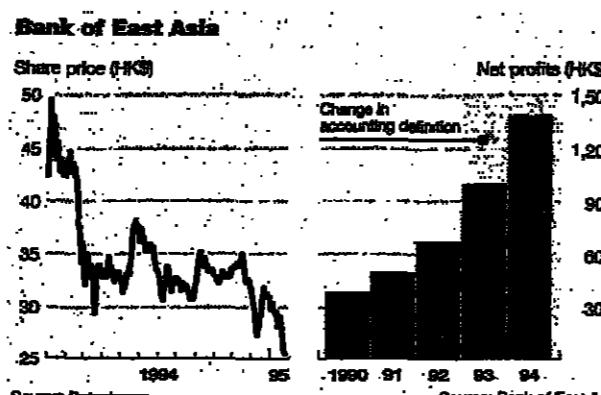
## INTERNATIONAL COMPANIES AND CAPITAL MARKETS

**Bank of East Asia disappoints**By Simon Holberton  
in Hong Kong

Bank of East Asia, Hong Kong's third largest listed bank, yesterday disappointed the colony's stock market in spite of reporting a 38.6 per cent rise in net profit to HK\$1.54bn (US\$199m) from HK\$1.1bn a year ago.

Earnings were lifted by a HK\$423m exceptional item which, if stripped out, meant that earnings from banking were up only 7 per cent, analysts said. Mrs Carmel Walsh, analyst at Baring Securities, said the results were "dismal" and compared unfavourably with expectations of a 17 per cent to 23 per cent growth in earnings.

Disappointment with the bank's results also stemmed from disclosure of its hitherto secret inner reserves. This showed that the bank had only transferred 10 per cent (HK\$106.3m) of its 1993 profits to inner reserves. Analysts



said they had been encouraged by the bank to think it had transferred 20 per cent to 25 per cent of profits to reserves.

The disappointment of analysts was shared by investors. In a day when the Hang Seng index of leading stocks rose 3 per cent, Bank of East Asia's share price dipped 26 cents to close at HK\$25.50.

Mr David Li, deputy chair-

man, said growth in Hong Kong's banking sector was subdued last year due to the slowdown in mortgage lending and an erosion of net interest margins.

He said net interest continued to be the main source of bank earnings but this year banks in Hong Kong will have to rely more upon non-interest income. Improvement in the

supervisory framework should further reduce operating risk. The bank's net interest income rose 16 per cent to HK\$1.88bn, while other operating income fell 1.8 per cent to HK\$672.9m. The charge for bad and doubtful debts rose 20 per cent to HK\$149.6m.

The large exceptional item arose from the sale of properties associated with the bank's redevelopment of a site in Kennedy Town, in west Hong Kong.

Mr Li said a number of residential units in the development were sold last year and shops on the ground floor had been fully let.

During last year the bank raised HK\$2.2bn in bonds and floating rate negotiable certificates of deposit.

A final dividend of 6.25 cents a share was declared which, with the interim payout of 2.75 cents, makes 9 cents for the last year - up 25 per cent on last year. Directors also declared a 1-for-5 bonus issue.

**Indian Oil to make first public offering**By Shiraz Sidhu  
in New Delhi

Indian Oil Corporation, India's largest state-owned oil company, is planning its first public offering of new shares some time after March 1995.

The offering of 37m shares - 10 per cent of its equity capital - will make Indian Oil the first public sector enterprise in the country to offer shares to the public.

The company said it had received government approval in principle to do the offering. "We are looking at all the options before working out details of the issue," the spokesman said. "We have to see what the market can take before we decide whether to go in for a global depositary receipt (GDR) issue, an ordinary public issue or shares with warrants."

Indian Oil had turnover of Rs230bn (US\$3.3bn) last year, expected to increase to Rs261bn in 1994-95. The company made profits of Rs7.72bn in 1993-94, expected to increase to Rs9.29bn this year. It had an equity capital base of Rs3.69bn in September 1994, which was increased to Rs3.9bn in January 1995.

The company says shares are likely to be priced at Rs712 each. The figure, which may be revised due to market conditions, is based on the average bid price received by the government when it auctioned 18.5m shares of the company in September 1994. Shares in that auction were bought by other public sector companies and large institutions.

The government of India needs to raise additional capital to fund new refineries and pipelines and to expand existing projects.

The government of India owns 99.9 per cent of the profit-making corporation before September 1994, with the state government of Gujarat holding the balance.

Two blocks of 18.5m shares each have since been auctioned by the government, in October last, and in January this year. The results of the January auction have yet to be released.

**Nestlé posts sales slip but sees higher annual profits**

By Ian Rodger in Zurich

Nestlé, the world's largest food group, has reported a 1.2 per cent decline in sales to SF156.8bn (\$41.68bn) for 1994 and weaker volume in the fourth quarter.

However, it acknowledged that sales volume, excluding the impact of acquisitions and divestments, grew only 2.3 per cent, well below the group's target of 4 per cent annual growth.

This growth rate was also worse than the 2.8 per cent already reported for the first 10 months of the year.

The group pointed out that volume had been hurt by the progressive elimination of

canned goods sales in the UK and the reduction of the year-end trade loading process in the US.

Sales volume grew strongly in Latin America and Asia, and only slightly in North America and Europe.

Nestlé said its forecasts of higher sales and profits in the current year were based on the hypothesis that currency fluctuations would result to a much lesser extent than in 1994.

• Sulzer Technology, the Swiss engineering and medical equipment group, said its 1994 order intake was flat at SF6.1bn.

**Asean tie for Singapore Telecom**By Kieran Cooke  
in Kuala Lumpur

Singapore Telecom (ST), the island republic's partially privatised telecommunications and postal utility, is linking up with three of south-east Asia's biggest telecom companies to co-ordinate regional services to multinationals.

Telekom Malaysia, PT Indosat of Indonesia and the Philippine Long Distance Telephone company, along with ST, will form a company which will provide so-called seamless telecommunications services to multinationals operating in the Asean region.

"Customers operating from

any part of the world will be able to enjoy a 'one stop shop' facility by way of a single point of contact to order, install and maintain services for their telecommunications needs in the Asean region," said an ST spokesman.

"Most [multinationals] seek a borderless but comprehensive range of services that can transcend all boundary considerations," he said. "The Asean collaboration allows us to meet this growing customer expectation with greater confidence."

ST said the Communication Authority of Thailand and the Brunei Telecom company may join the alliance in the near future.

**Quake may delay JR West listing**

Japan's transport ministry may need to review its plans to list West Japan Railway (JR West) when the damage the company suffered from this month's earthquake becomes clearer, Reuter reports from Tokyo.

JR West operates a large railway network in the western part of Honshu Island, including Osaka and Kobe where the earthquake hit hardest. It had said it planned to list its shares in the year to March 31 1996.

Yesterday a ministry spokesman said: "When all damage and the timing of resumption of full operations in the dam-

warrant the listing. Its November forecast projects a current profit of Y22bn in 1994-95 after a Y54.7bn profit in 1993-94.

The ministry had not yet decided what to do with Central Japan Railway (JR Central), another target for eventual privatisation, the official said.

Shares in East Japan Railway (JR East), another company created when the heavily indebted Japan National Railways was split into seven companies in April 1987, were listed in October 1988. The Nikkei Average fell sharply just after the listing.

**Strife in a cathedral of capitalism**

Andrew Jack examines an embarrassing dispute at the Matif

The gleaming new buildings of the Matif, the French financial futures exchange, in central Paris and one of the high cathedrals of capitalism, seems an unlikely venue for industrial action - particularly by some of its highest rewarded members.

Yet about half of the 70 "locals" or independent proprietary traders on the exchange - including all dealing in the "notional" or 10-year French bonds futures contract - have stayed away from work all week in a protest about changes to fees and broader policy issues.

Matif introduced a special membership category of locals - or *négociateurs individuels de parquet* - in 1988, to remove the conflicts of interest when those in member firms traded on their own behalf rather than for their firm or for clients.

Mr André Bennetan, head of the association representing the traders, stresses that the action - which was decided last Friday and is scheduled to last all week - is not a strike so much as a consumer boy-

cott. "We are not employees of the Matif but their customers. They are our suppliers," he says.

The administrators of Matif, normally eager to turn out press releases, have unsurprisingly tried to maintain a rather lower profile during the dispute. While the locals will only affect themselves rather than other clients, the dispute looks rather embarrassing.

In addition, Mr Bennetan stresses that locals have an important part to play in maintaining the liquidity of the markets. "We probably provide 20 per cent of the volume, and our activity induces another 20 per cent on the notional," he says. At no time is this more important than at present, with trading volumes at relatively low levels.

Mr Gilbert Durieux, Matif's managing director, says that it is very difficult to assess the impact of the locals' boycott, but argues that early in the week volumes might have been down by 10 to 15 per cent on the notional contract because

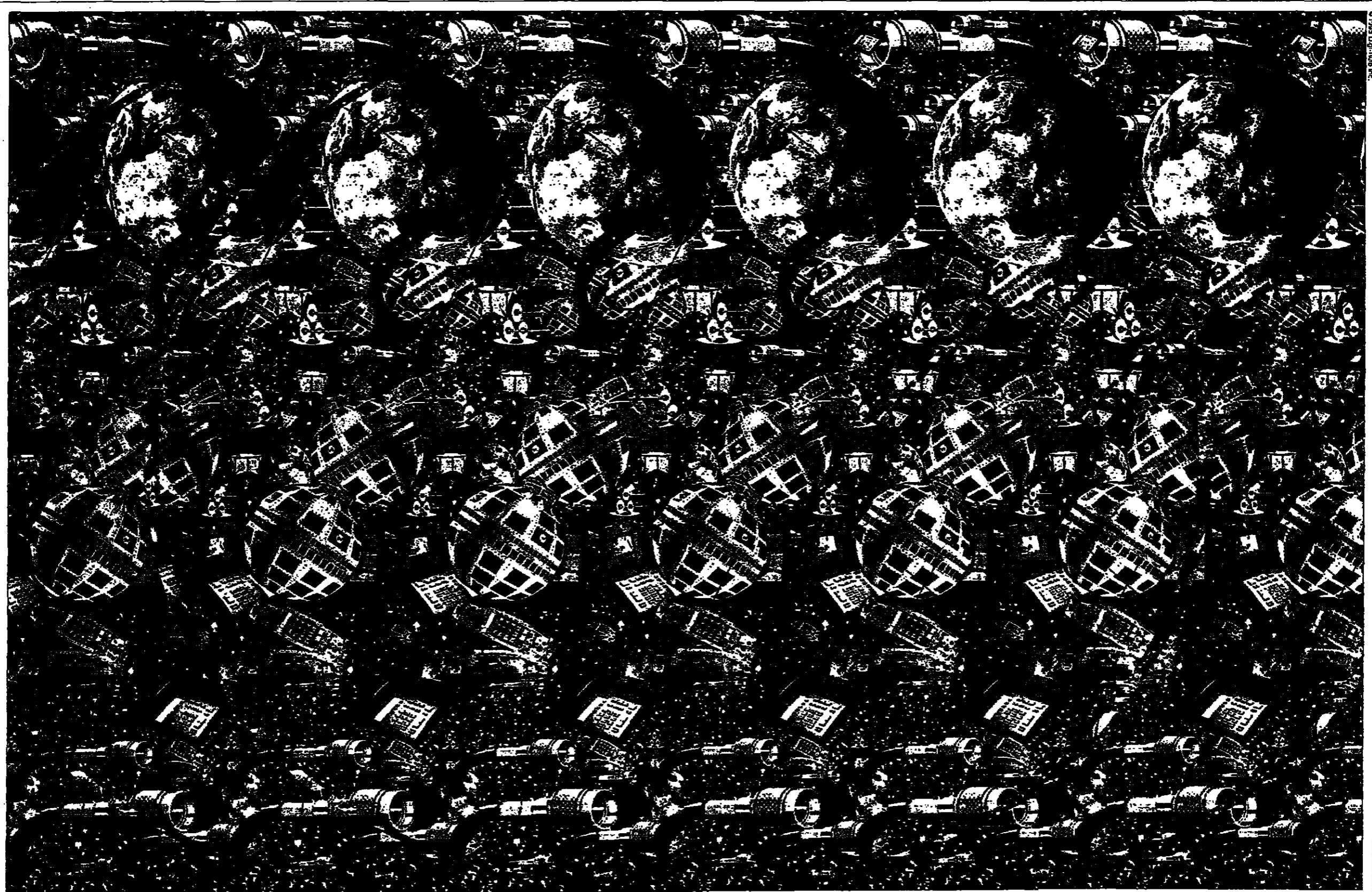
of the absence of the additional traders.

He says the dispute is primarily about new fees being introduced in an effort to raise the charges levied on locals to commercial levels. At present they pay an average of FFr2.85 per trade; under Matif's revised proposals they would pay about FFr3.40.

The actual price depends on the volume of each local trades with those generating more paying less for each transaction.

"We discovered that we were selling our services at below cost," says Mr Durieux. "That was understandable when we started offering locals membership to give them an incentive. But now we want to be in a position where they pay a price corresponding to our costs - plus a margin, of course."

However, Mr Bennetan argues that the proposed fees are unjustly high. He is equally keen to stress that locals are concerned about other issues, including the competitiveness of Matif and especially its notional contract in comparison with the bund -



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## INTERNATIONAL COMPANIES AND FINANCE

# Unisys in red after job-cut charge

By Louise Kehoe  
in San Francisco

Unisys, the US computer group, has reported a net loss for its fourth quarter, after charges to cut more than 4,000 jobs. Earnings for the year were disappointing, it said.

Net loss for the review period was \$52.5m, or 48 cents a share, after a pre-tax restructuring charge of \$186.2m. Unisys said the previously-announced job cuts would create annual savings of

more than \$200m. Excluding the charge, net income for the quarter was \$80.5m. In the same period last year, Unisys reported net earnings of \$117.7m, or 46 cents a share, fully diluted.

Revenues for the quarter rose slightly, to \$2.12bn from \$2.10bn in the same period last year. This was the first quarterly revenue increase in two years, although currency exchange rates helped to produce the rise.

Unisys said earnings in the

fourth quarter, before the special charge, were lower than a year earlier, due principally to a decline in defence and other government business.

Fourth-quarter earnings were helped by adjustments to employee benefit-related expenses and the reversal of previously-accrued contingency payments. A reduction in research and development spending also helped earnings.

For the full year, the company reported net income of

\$100.5m, or a net loss per share, fully-diluted, of 11 cents after payment of dividends on preferred shares. Excluding the fourth-quarter charge and an extraordinary charge of \$7.7m in the first quarter, net income for the year was 71 cents a share.

For 1993, net income was \$65.4m, or \$2.69 a share, after extraordinary items totalling \$230.2m. Before the gains, net income was \$1.45 a share.

Revenue was \$7.40bn in 1994, down from \$7.74bn in 1993.

## Strong markets lift US metals producer

By Laurie Morse in Chicago

Cyrus Amax Minerals, a leading coal and copper producer, reported fourth-quarter net income of \$67m, or 63 cents a share, compared with an \$8m, or a 14 cent loss in the fourth quarter of 1993.

Revenues in the period rose to \$732m from \$541m in 1993.

A strong world market for molybdenum, a material used in making metal alloys, helped boost results for the quarter and for the year, as did rising copper prices. Cyrus acquired Amax halfway through the fourth quarter of 1993, while 1994 results include a full quarter of its operations.

For the year, excluding special items, Cyrus Amax earned \$162m, or \$1.55 a share, compared with 1993's \$80m or 90 cents before non-recurring items. Revenues for the year were \$2.8bn, up from 1993's \$1.8bn.

The jump in 1994 earnings reflects the inclusion of Amax's

operations, plus an average increase in copper income of 15 cents per pound, and a \$28m contribution from molybdenum operations. The company's copper production reached 648m lbs for the year, up from 532m lbs last year.

The production gain came as

the company added production in mines in Chile and Peru.

With more capacity coming on

line, it projected copper output

would reach 880m lbs next year.

"Our business is well-positioned to benefit from the strong US economy, increasing consumption in Europe and Japan, and continued strength in the rest of the Asian market," said Mr Milton Ward,

chairman.

Earnings in the chemicals

division were up 39 per cent in the year to \$282m, with volume up 10 per cent. Fibres earnings

rose 59 per cent to \$87m, with volume up 6 per cent before acquisitions. Polymers earnings were up 103 per cent at

\$70m, with volume up 13 per cent.

Diversified businesses -

subsidiary, sales for the year were \$22.5bn, an underlying increase of 8 per cent. Though

selling prices began rising during the year, they were 1 per cent lower for the year as a whole. From a group volume

rise of 9 per cent, the strongest performance came in Europe, up 14 per cent.

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## COMPANY NEWS: UK

Proposed deal underlines trend towards consolidation in European insurance sector

## Groupama offers £83m for Lombard

By Ralph Atkins in London  
and Andrew Jack in Paris

Caisse Centrale des Assurances Mutuelles Agricoles - Groupama - yesterday announced an £83m (\$129.5m) agreed cash offer for Lombard Insurance, the UK provincial insurer, in a move highlighting the trend towards consolidation in the European insurance sector.

The French insurance group is offering 28p in cash per share in Lombard, which was floated in May. That represents a premium of 37.1 per cent over Tuesday's closing price.

There is a loan note alternative.

Lombard was valued at 25p/m at the time of its flotation. The shares gained 6p yesterday to close at 25p.

Mr David Young, Lombard's chairman, said the company was "conscious of being a small player in a large, competitive and cyclical industry, and of having limited resources with which to develop and expand our activities".

Groupama would give Lombard access to additional resources to exploit future opportunities, he said.

The smaller UK insurance

companies are expected to come under increasing pressure in the next few years, as price competition intensifies in many non-life product lines.

Yesterday's announcement follows last year's purchase by Union des Assurances de Paris (UAP), the large French insurance group, of UK-based Provincial Insurance.

Funds managed by Electra Kingway have agreed to accept the offer in respect of 20 per cent of Lombard's issued share capital. Altogether, irrevocable acceptances so far total 24.4 per cent.

Lombard also announced results for the six months to December 31 which showed pre-tax profits of £7.8m against

£5.4m last time. Gross premiums written rose to £45m from £43.7m in the same period, while earnings per share were 13.5p against a pro forma of 10.6p. The board approved an interim dividend of 2.75p.

Groupama has a large network of local mutual organisations which comprise the Assurances Mutuelles Agricoles, specialising in agricultural insurance.

Since 1990, it has sought to expand into the larger European countries - its main targets are the UK, Spain, Italy and Germany. It already controls Sorema UK, a wholly-owned subsidiary of Sorema Paris, the French reinsurance company.

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## Thinking small can bring big rewards

Philip Coggan discusses the possible benefits of investing in smaller companies

**T**he small company effect is one which stock market watchers file in the "strange but true" category. Over a long period, shares in smaller companies outperform those of larger groups, whether they are in the UK, the US or Japan.

Odder still, the smaller the company, the better the return. The smallest 200 UK companies have returned an astonishing 34 per cent per annum compound (before transaction costs) over the past 40 years.

Some analysts can find a rationale. They argue that the growth prospects of smaller companies are much greater than those of their larger brethren, because it is easier to double the turnover of a £20m company than one with £2bn. "Elephants can't gallop", as the saying goes.

Furthermore, small companies are less well researched than those in the FTSE 100 index, which hinders analysts poring over their balance sheets. There should be more scope to find a bargain among companies which are ignored by the City.

In the UK, empirical proof of the small company effect was first provided in 1987, when brokers Hoare Govett, together with Professors Paul Marsh and Elroy Dimson from the London Business School, launched a smaller companies index. By back-testing the data, the academics were able to show that a portfolio of smaller companies had outperformed the FTSE-A All-Share Index since 1985.

But one of history's little ironies then took effect. Once a market anomaly has been noticed and measured, it seems to cease to be true. Before 1987, there had

been only one occasion when the shares of small companies had lagged the general market for two consecutive years, but in the four years from 1989-92, dominated by recession and high interest rates, they underperformed.

Britain's departure from the Exchange Rate Mechanism seemed to mark a turning point. In 1993, the Hoare

Govett index was still below its September 1987 level.

Part of the problem was the enthusiasm for small company stocks generated by fund managers' awareness of the small company effect; in the first nine months of 1987, the HGSC rose by

**But one of history's little ironies then took effect.  
Once a market anomaly has been noticed and measured, it seems to cease to be true**

Govett Smaller Companies Index (HGSC), which covers just under 1,400 companies with capitalisations of less than £246m, produced a total return of 44 per cent, against the All-Share's 28.4 per cent.

The latest annual review from Hoare Govett, published yesterday, showed that smaller companies also managed to outperform in 1994. Last year, the total return from the HGSC was 4.1 per cent, while the All-Share generated a loss of 5.8 per cent. However, all the outperformance occurred in the first five weeks; from early February onwards, the smaller companies index lagged behind the general market.

However, the recent recovery has yet

more than 70 per cent.

Just as the demand for small company stocks drove up the price of such illiquid securities in the bull market, so the crash of October 1987 left investors with holdings they did not want. The recession, which particularly hurt small companies with high debts and UK-based customers, added to the damage.

**F**ears of a repeat may have caused some of the recent problems for smaller company shares. Mr Richard Hickinbotham, smaller companies analyst at S.G. Warburg, says the reason for the decline in the latter half of 1994 was the general view that smaller companies are more cyclical

than the blue chips. "The market is beginning to discount a recession at the end of 1995, and downgrades in smaller company profit forecasts have been outweighed by around two-to-one," he says.

But, should economic growth continue at 1994's rapid pace, small companies could benefit. Mr Alastair Whyte, partner of fund management group Aberforth, points out that small companies are overweight in the manufacturing sector. Just under 40 per cent of the extended HGSC (excluding investment trusts) is in the general industrial sector, compared with less than 20 per cent of the All-Share.

Mr Jonathan Bartlett, manager of M&G's smaller companies fund, draws optimism from the fact that, in the third and fourth quarter of last year, small company dividends started to pick up after two to three years in the doldrums. He estimates that the annual growth of dividends in the third quarter was running at about 6 per cent.

Anyone buying into small companies now is paying a premium. Yesterday morning, shares in the FTSE Small Cap Index (excluding investment trusts) were trading on a price/earnings ratio of 17.8 and a dividend yield of 3.57 per cent; the All-Share was on a p/e of 16.6 and yield of 4.14 per cent.

But investors can take solace from the long-term record. Despite problems in the last few years, the HGSC has paid a total return of 18.1 per cent a year since 1985, compared with 13.9 per cent for the All-Share. Investors may not be able to explain the small company effect, but while they earn higher returns, they probably will not care.

## LEX COMMENT

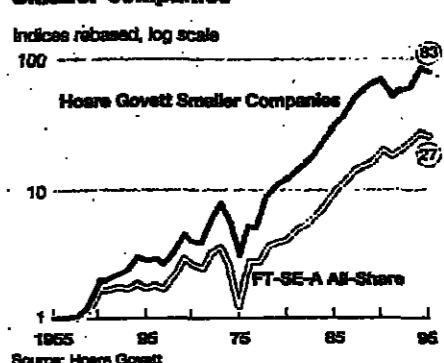
### UK smaller companies

The perceived wisdom that small companies should outperform in an economic recovery was borne out again in 1994. Total returns from the Hoare Govett Smaller Companies Index, excluding investment trusts, were a negative 3 per cent, compared with a negative 6 per cent from the FTSE-A All-Share Index. But the 3 percentage point outperformance represents small compensation for the added risk of investing in small, less actively traded companies. In 1993, the return on small companies was 16 percentage points greater than the broader index. In addition, the risks of small companies are underlined by the 11 corporate failures within the HGSC index last year.

Nevertheless, the outlook for 1995 appears positive. About 40 per cent of the HGSC constituents are in general manufacturing. As continental Europe pulls out of recession, export growth should strengthen their performance. The second largest sub-sector, property, fell 21 per cent last year but should improve as the rental cycle turns. Also the number of corporate collapses should decline.

The average p/e ratio for the HGSC is 16, a small premium to the All-Share's average of

#### Smaller companies



15. But profits growth should outstrip the broader market. The minnows suffered twice as many profit downgrades as upgrades during December. This was reflected in the under-performance of the HGSC last month. With higher operational gearing than the broader market, there is scope for recovery.

## Danka rises 31% in third quarter

By Peter Pearce

Pre-tax profits at Danka Business Systems, the acquisitive office equipment supplier, grew 31 per cent from £6.81m to £11.5m in its third quarter to December 31. Profits for the nine months rose 47 per cent to £22.6m pre-tax.

Having peaked at 395p in January, the shares of the company, which is quoted in the UK but operates mainly in the US, slid 13p to 366p yesterday.

Operating profits in the quarter rose 38 per cent to £12.8m (£9.25m) on turnover up 39 per cent at £128.7m (£82.5m).

Stripping out acquired businesses which contributed profits of £360,000 on turnover of £17.9m, organic profits expanded 34 per cent to £12.4m on turnover up 20 per cent at £110.8m.

The 12 companies acquired in the three months should have annualised sales of \$60m. They included American Business Equipment, which has annual sales of \$16m, bought for \$7.6m.

## Brands strength helps WH Smith

By David Blackwell

A combination of good summer weather, the rail strike and a lack of consumer confidence held the first half rise in profits at WH Smith, the retailer, to 1 per cent.

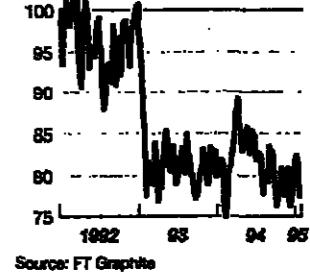
Pre-tax profits for the 26 weeks to November 26 were £45.2m (£30.5m), compared with £24.7m (£14.6m), and gross margins were flat at 32 per cent.

Sir Malcolm Field, chief executive, said the strength of the group's brands had helped sales. However, the build-up to Christmas did not start until December, when UK retail sales rose 7.3 per cent.

Operating profits rose from £47.1m to £51.2m, including Virgin Retail, previously an associate company, now a subsidiary. However, operating profits from retailing in the UK and Europe fell from £33.1m to £28.6m, mainly because of a £1.9m decline in the pension credit and the cost of adding 110,000 sq ft of space. Retail sales edged ahead to £640.2m (£629m), with music and video the strongest contributors.

WH Smith

Share price relative to the FTSE-A All-Share index



## At home in Emerging Markets and Capital Markets.

<b>BNP</b> Banque Nationale de Paris  NLG 150,000,000 7% Bonds 1994 due 1997  Lead Manager ING BANK	<b>FTSE</b> FTSE 100 AND INDUSTRIAL & OTHER CORPORATE Rp. 50,000,000,000 Multicurrency Commercial Paper Programme  Arranger and Agent ING BANK JAKARTA	<b>Banco Valencia</b>  US\$ 50,000,000 10% Notes due 1997  Lead Manager ING BANK	<b>SCHEDE DI STUDIO FORTE PLAST CO LTD</b>  USS 168,000,000 Project Financing Facility  Co-Manager ING BANK HONG KONG	<b>UNILEVER CZECH REPUBLIC s.r.o.</b>  CZK 900,000,000 Commercial Paper Programme  Dealer and Agent ING BANK PRAGUE	<b>ELIAIT</b> ELIAIT LTD POLAND  PLZ 400,000,000,000 Commercial Paper Programme  Arranger and Agent ING BANK WARSAW	<b>PESICO</b> Pepco Trading S.p.A.  PLZ 550,000,000,000 Commercial Paper Programme  Arranger and Agent ING BANK WARSAW	<b>U</b> UNILEVER INDIA LTD  PLZ 400,000,000,000 Commercial Paper Programme  Arranger and Dealer ING BANK WARSAW
<b>HUNGARIAN BANK</b> National Bank of Hungary  NLG 150,000,000 8% Bonds 1994 due 1999  Lead Manager ING BANK	<b>ASSOCIATION OF CRUDE OIL &amp; OIL PRODUCTS STOCKHOLDERS</b> Hungarian Association of Crude Oil & Oil Products Stockholders  HUF 4,800,000,000 Revolving Credit Facility  Arranger and Lead Manager ING BANK HUNGARY	<b>KNP-BF</b> KUNMING PHOSPHATE & FERTILIZER CORP.  50,340,152 Bearer Depository Receipts of Bearer obligations for cumulative preference shares  Issue and Arranger Arranger ING BANK	<b>MIC</b> MANUFACTURING INDUSTRIES CORP.  USS 75,000,000 Revolving Credit Facility  Co-Lead Manager and Arranger ING BANK	<b>Ballast Nedam</b> Ballast Nedam  NLG 400,000,000 6½% Bonds 1994 due 2001  Lead Manager ING BANK	<b>Gasunie</b> Gasunie  NLG 150,000,000 6% Bonds 1994 due 1999  Lead Manager ING BANK	<b>PEPSICO</b> Pepco Trading S.p.A.  PLZ 100,000,000,000 Private Placement of Fixed-Rate Bonds due 1997  Arranger and Agent ING BANK WARSAW	
<b>Investel</b> INVESTMENT TRADING & FINANCIAL SERVICES INC.  USS 100,000,000 Deposit Note Programme  Arranger and Dealer ING BANK	<b>NAS</b> NATIONAL ASSOCIATION OF SECURITY EXCHANGES  NLG 300,000,000 5½% Bonds 1994 due 2004  Lead Manager ING BANK	<b>Advisef</b> ADVISEF INC.  For the stock price of USS 598,517,573.32 for the stock offer of 74,671 % of total capital  Advisef ING BANK	<b>De Nationale Nederlandse Postvaart NV</b> De Nationale Nederlandse Postvaart NV  NLG 500,000,000 5½% Bonds 1994 due 2000  Lead Manager ING BANK	<b>Internat-Miller CO</b> INTERNAT-MILLER CO.  Private Placement of 2,400 Ordinary Shares  Lead Manager ING BANK	<b>ABB</b> AEGLE HOLDING COMPANY INC.  CZK 250,000,000 Revolving Credit Facility  Arranger ING BANK PRAGUE	<b>ING BANK</b> ING BANK	

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## COMPANY NEWS: UK

Ex-Pru chief had until October 1997 to act

## Options time was not so tight

By William Lewis and John Gapper

The 203,750 share options sold in October by Mr Mick Newmarch, former chief executive of Prudential Corporation, which are at the centre of a Stock Exchange investigation, did not have to start being exercised until October 1997.

Company documents show that the options which Mr Newmarch exercised and sold on October 25 had exercise periods dating from October 1993 through to April 2001. On Monday the Prudential announced that Mr Newmarch had resigned and also disclosed that the Stock Exchange was investigating his dealings in Prudential shares. The company said Mr Newmarch had only gone through with the October share option transactions because he would otherwise have forfeited the right to a further grant of options.

In a statement, the company cited a worsening relationship with regulators of UK retail financial services as the reason for Mr Newmarch's resignation.

It said it was concerned that details of the Stock Exchange's

probe would have emerged after Mr Newmarch's resignation had been announced. It was only because of this reason that it had mentioned the share dealings in its formal statement.

Mr Newmarch made a profit of £202,775 from exercising three batches of options on October 25. He exercised 84,500 at 199p, 64,250 at 164p and 50,000 at 236p. He then sold all of them into the market at 296p, yielding a profit of £502,775.

The next day Mr Newmarch was awarded a further 140,500 options, exercisable at 296p, from October 1997.

According to the Prudential, he was only granted these replacement options after exercising the three batches the previous day. Mr Newmarch was entitled to hold share options worth up to four times his salary, but no more.

"If he had not exercised those options, he would not have been able to take on the new ones," the company said.

It also emerged yesterday that Mr Newmarch's share dealings had been authorised by Prudential's company secretary and Sir Brian Corby, the chairman.

They based their judgment



Michael Lawrence: formulated management's share dealing code

on the directors' and senior management's dealing code, which was formulated by Mr Michael Lawrence, Prudential's former finance director.

Mr Lawrence is now chief executive of the Stock Exchange. The exchange said yesterday it was continuing with its inquiry. A result is expected shortly, but the

exchange said it could not comment on the likely outcome.

If it finds that Mr Newmarch contravened its model rules for directors, it can banish him privately or publicly. Only if he was found guilty of a "wilful or persistent failure" to obey rules would stronger action be taken.

The group was looking to raise profits via acquisitions, but probably without turning to shareholders. Two each in the UK, continental Europe and the US were currently under review, Mr Corbin said, and purchases could be in rugs or coating activities.

A final dividend of 8.5p (8.3p) lifts the total to 13.6p (12.9p), on earnings per share of 63.3p (£32.2p). Pre-tax profits for the current year are forecast at about £15m with earnings per share of about 38p (depending on the tax situation) for a p/e of 13.2.

## Allied Textile advances to £17m

By Peter Pearce

Contributions from its recent acquisitions enabled Allied Textile Companies, the textile manufacturer and processor, lift pre-tax profits 24 per cent from £13.7m to £17m in the year to September 30.

Operating profits on continuing activities declined to £9.08m (£9.68m). However, the acquisitions - Cleyn & Tinker, a Canadian maker of worsted cloth, Carleton Woolen Mills, a US maker of wool and wool-blend fabrics, and Coating Applications of the US - contributed £5.65m on turnover of £45.5m, raising the total 52 per cent to £14.7m.

Profits from financial activities were lower at £2.3m (£4m).

Mr John Corbin, chief executive, said the UK had been "difficult". ATC had passed on raw material price rises - and could, for example, benefit from "mixing" bought forward and current price wool.

The group was looking to

## Sainsbury pays £290m for Texas Homecare

By Tim Burt

J Sainsbury, Britain's largest grocery chain, yesterday announced a big expansion in do-it-yourself retailing by agreeing to pay Ladbrooke Group, the leisure company, £250m (£450m) for its Texas Homebase subsidiary.

Shaw's, the US supermarket chain, reported sales up 3.7 per cent overall with a like-for-like rise of 1.5 per cent. A further 300,000 sq ft is expected in the year to March 1996.

Homebase do-it-yourself stores had sales increases of 14.7 per cent and 5.3 per cent respectively, with zero inflation. Sainsbury centre sales were up 4.2 per cent overall.

£500m," he said.

Ladbrooke, meanwhile, said the disposal would help it to reduce its borrowings sharply and focus on its core hotels, gaming and betting activities.

"The price may appear high but I think Sainsbury will be able to justify it," said Mr Peter George, chief executive of Ladbrooke.

The acquisition will push Sainsbury's year end gearing up from 23 per cent to 33 per cent, equivalent to total group borrowings of almost £1.2bn.

The enlarged DIY group will have about 10 per cent of the UK market, and Mr Sainsbury said he was confident profitability at Texas could be improved rapidly.

## Priest to petition Tate & Lyle

By Robert Taylor,  
Employment Editor

Today, for the third successive year, shareholders of Tate & Lyle, the sugars and sweeteners group, will have their annual meeting disrupted by US trade union officials demanding an end to a lock-out of 760 workers by AE

Staley, its Illinois subsidiary.

Officials of the United Paperworkers union, holding proxy votes, will be joined at today's meeting in London by a Roman Catholic priest, Fr Martin Manning. He will present a petition signed by 400 religious leaders calling on Tate & Lyle to "live up to its responsibilities to the wider community".

Mr Pat Mohan, Staley's executive vice-president, said: "We still hope to negotiate a mutually acceptable settlement".

In late 1992 Staley decided to introduce sub-contract work and 12-hour rotating shifts in its corn-processing plant. When the workers refused to sign individual contracts they were locked out in June 1993.

## RESULTS

	Turnover (£m)	Pre-tax profit (£m)	EPS (p)	Current payment (p)	Date of payment	Dividends proposed declared	Total for year	Total last year
Allied Textile	Yr to Sept 30	168.3 (127.4)	17 (19.7)	36.3 (38.2)	9.5	Apr 3-	9.3	12.0
Coleys & Fyeder	6 mths to Oct 31	17.8 (16.1)	0.63 (0.05)	1.96 (0.15)	0.7	Apr 7-	-	1
Dudley Jenkins	6 mths to Oct 31	7.17 (6.4)	0.51 (0.43)	2.85 (2.25)	1.1	Mar 31-	1.05	3.25
Lumber Insurance	6 mths to Dec 31	45.7 (43.7)	7.85 (5.43)	13.8 (13.5)	2.75	Mar 16-	-	-
Mosaic Inc	6 mths to Oct 31	9.59 (11.28)	1.65 (1.42)	5.98 (6.05)	1*	Apr 3-	-	9
Newmark (Loud)	6 mths to Oct 1	13.88 (12.18)	0.83 (0.94)	16.71 (15.21)	-	Apr 3-	-	-
Smith (W)	6 mths to Nov 26	122.1 (114.5)	45.2 (44.7)	11.2 (11.4)	3.25	Apr 3-	5	15.4

Dividends shown net. Figures in brackets are for corresponding period. \*On increased capital. US\$M stock. \*Special interim. £m unless otherwise stated. 1/6 August 31.

	NAV (p)	Net earnings (£m)	EPS (p)	Current payment (p)	Date of payment	Dividends proposed declared	Total for year	Total last year
Donnedix Japan	6 mths to Dec 31	92.5 (83.8)	0.01 (0.05)	0.05 (0.23)	-	-	-	0.25
First Spanish	6 mths to Nov 30	84.4 (80.2)	0.0004 (0.016)	0.07 (0.21)	-	-	-	1.05
Murray Split Cap	3 mths to Nov 30	185.8 (223.7)	0.17 (0.2)	2.13 (2.47)	2.65	Apr 3-	-	10.5

Dividends shown net. Figures in brackets are for corresponding period. 1/6 August 31.

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### THE HEDGE FUND

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Luxembourg, 11, rue Aldringen  
R.C. Luxembourg N° B 38 653

#### Notice of Meeting

Notice is hereby given that the Annual General Meeting of Shareholders will be held at the registered office of the Company on 13 February 1995 at 11.00 a.m. with the following agenda:

##### Agenda

- Approval of the report of the Board of Directors and of the report of the Auditor.
- Approval of the annual accounts as at 30 September 1994 and allocation of the results.
- Discharge to the Directors.
- Re-election of the Directors and of the Authorized Independent Auditor for a new term of one year.
- Miscellaneous.

The shareholders are advised that no quorum is required for the items of the agenda and that the decisions will be taken at the simple majority of the shares present or represented at the Meeting. Each share is entitled to one vote. A shareholder may act at any Meeting by proxy.

By order of the Board of Directors

### THE HEDGE FUND (£)

SICAV  
Luxembourg, 11, rue Aldringen  
R.C. Luxembourg N° B 40 694

#### Notice of Meeting

Notice is hereby given that the Annual General Meeting of Shareholders will be held at the registered office of the Company on 13 February 1995 at 2.00 p.m. with the following agenda:

##### Agenda

- Approval of the report of the Board of Directors and of the report of the Auditor.
- Approval of the annual accounts as at 30 September 1994 and allocation of the results.
- Discharge to the Directors.
- Re-election of the Directors and of the Authorized Independent Auditor for a new term of one year.
- Miscellaneous.

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By order of the Board of Directors

### THE HEDGE FUND (\$) II

SICAV  
Luxembourg, 11, rue Aldringen  
R.C. Luxembourg N° B 40 693

#### Notice of Meeting

Notice is hereby given that the Annual General Meeting of Shareholders will be held at the registered office of the Company on 13 February 1995 at 3.00 p.m. with the following agenda:

##### Agenda

- Approval of the report of the Board of Directors and of the report of the Auditor.
- Approval of the annual accounts as at 30 September 1994 and allocation of the results.
- Discharge to the Directors.
- Re-election of the Directors and of the Authorized Independent Auditor for a new term of one year.
- Miscellaneous.

The shareholders are advised that no quorum is required for the items of the agenda and that the decisions will be taken at the simple majority of the shares present or represented at the Meeting. Each share is entitled to one vote. A shareholder may act at any Meeting by proxy.

By order of the Board of Directors

### SOUTH AUSTRALIAN GOVERNMENT FINANCING AUTHORITY

US \$500,000,000  
Guaranteed Floating Rate Notes Due 1996

Notice is hereby given that the rate of interest for the period 23rd January 1995 to 24th April 1995 has been fixed at 6% per cent. Interest will amount to US \$161.15 per US \$10,000 Note, US \$161.46 per US \$100,000 Note and US \$1614.58 per US \$1,000,000 Note, and will be payable on 24th April 1995 against Coupon No. 4.

Hambros Bank Limited  
Agent Bank

### BRITANNIA BUILDING SOCIETY

Issue of up to  
£50,000,000  
Floating Rate Notes  
Due 2005

In accordance with the terms and conditions of the Notes, notice is hereby given that for the three month interest period from (and including) 25th January 1995 to (but excluding) 25th April 1995 the rate of interest will be 7.3542% per cent. The relevant interest payment date will be 25th April 1995. The coupon amount per £1,000.00 Note will be £18.70

## COMMODITIES AND AGRICULTURE

## China's problems seen halving copper imports

By Kenneth Gooding,  
Mining Correspondent

China's copper imports this year would drop by more than half from the 1994 level and this would have a knock-on impact in other Asian countries, Mr Simon Hunt, chairman of the Brook Hunt metals consultancy organisation, predicted yesterday.

A severe credit squeeze would cut China's industrial production growth from a reported 20 per cent to between 6 and 8 per cent, while the country was likely to "turn inwards" because of the political uncertainty arising from the imminent death of Mr Deng Xiaoping, the Chinese leader, he added.

Consequently, Brook Hunt was expecting Chinese imports of refined copper to fall from 210,000 tonnes in 1994 to 100,000 tonnes this year.

Weakening industrial activity in China would be felt in other parts of Asia, not only because the area was the main supplier of copper to that country but also because Asia pro-

vided China with many semi-fabricated and fabricated items containing the metal.

However, although China would have surplus refined copper, it was unlikely that it would export that metal this year but would wait until the political uncertainties were over, Mr Hunt told the UK Association of Mining Analysts. He estimated that China's own production of refined copper would increase from 690,000 tonnes last year to 785,000 in 1995 and reach 1m tonnes by the year 2,000. But its production of copper concentrate (an intermediate material) would not match that and "China will be a big player in the copper concentrate market in future."

Refined copper consumption in China, which fell by 15 per cent to 770,000 tonnes in 1994, was expected by Brook Hunt to remain stable this year.

Speculative selling hit copper prices at the London Metal Exchange yesterday afternoon. The three-month position retreated \$60 from an early high of \$3,065 a tonne.

## Unified Germany gets to grips with land problem

Judy Dempsey finds a new optimism among exhibitors from eastern states at the Berlin agricultural fair

In the early years of German unification, it would have been difficult to find exhibitors from Berlin's five eastern states at the ministry's annual Grüne Woche, or Green Week, the huge annual agricultural fair that closes in the capital tomorrow.

Over the past few days, however, scores of exhibitors from eastern Germany have proudly shown off their wares, ranging from milk, dairy, and beer products, to every imaginable kind of fruit. "We have nearly overcome all our problems," says Mr Rudolf Herold, spokesman for the farmers' association from the eastern state of Brandenburg.

The gradual revival of eastern German agriculture has been helped immensely by grants from the European Union, but also by a considerable investment programme by the federal government, which has already invested more than DM17.4bn (£7.2bn) in the region.

More important, however, after five years of bitter wrangling, agriculture in eastern Germany is stabilising because the vexed question of outstanding property rights is close to being resolved.

"If there was any one prob-

lem which plagued agriculture in the east, it was property rights," says Mr Otto Bammel, a senior official at the ministry for agriculture.

Until unification, the 4.8m hectares of arable land in the five eastern states was divided into the Landwirtschaftliche

Produktionsgenossenschaften, or LPGs, the large co-operatives, and the VEGs, or the state farms, which accounted for about 15 per cent, or 1.2m hectares.

After 1990, co-operatives' members were given the option of reclaiming their land or remaining in the LPGs. But this was more easily said than done. Under the communists the LPGs had run up huge debts. "It was not because they were unprofitable," says Mr Bammel. "It's just that all

the profits had to be given to the authorities and any investments had to be made on the basis of state credits."

As a result, the LPGs had accumulated debts of about DM5bn, which the federal government has since picked up. But in the meantime, to raise additional cash, the members of the LPGs have had to lease out or sell some of their assets - shops, kindergartens and other ancillary units that were once part of the LPG system.

If the members of the LPGs had difficulties in making the transition to the market economy, while at the same time adapting to European Union regulations for setting aside land, the status of the VEGs has proved to be one of the biggest challenges for the BVVG, the organisation set up by the Treuhand privatisation agency to privatise eastern German land.

At first, in a bid to speed up privatisation, the BVVG started selling plots of VEB land to private individuals. But it soon turned out that many western Germans were buying that land. "This caused considerable resentment among the east Germans," says Mr Bammel. "The easterners had no capital and no collateral and

no chance to get credits from the banks. There was real tension between easterners and westerners as a result."

This scheme was soon dropped, and the federal government has since picked up the BVVG and the VEGs, or indeed quickly to get back their land before the BVVG was set up in 1990, which eastern Germans often resented. "The BVVG's attempts to privatise the VEGs was hindered by the fact that these former owners insisted that property should be treated equally before the law, and that therefore those who should have the right to either compensation or some restitution," explains an agricultural minis-

try official.

After many attempts to draft a law allowing compensation to former owners the federal government late last year finally agreed on a system whereby the 1945-49 former owners would have some limited right to compensation, and the right to buy and rent land in eastern Germany.

This law, called the Ausgleich, essentially gives easterners and westerners more or less the same rights to rent and buy land from the BVVG, says Mr Herold. "We are slowly on the road to recovery."

During the 1945-49 period the large estates were either bro-

ken up and given to German settlers who had fled from Russia and eastern Europe, or else turned over to the VEGs.

During the past five years some of these former owners tried to rent land from the BVVG, or indeed quickly to get back their land before the BVVG was set up in 1990, which eastern Germans often resented. "The BVVG's attempts to privatise the VEGs was hindered by the fact that these former owners insisted that property should be treated equally before the law, and that therefore those who should have the right to either compensation or some restitution," explains an agricultural minis-

try official.

With the new Ausgleich law, however, the BVVG has discovered that it does not have enough land to meet the demand from easterners and westerners. Nor can it decide to whom it should sell the land.

To overcome the first problem, the BVVG is now selling forests as well. And it intends to judge any new potential owner on the basis of his or her investment plans. "But we are still waiting for a law to implement the Ausgleich regulations," says Mr Herold.

This law, called the Ausgleich, essentially gives easterners and westerners more or less the same rights to rent and buy land from the BVVG," says Mr Herold.

In most cases, these former

## Forestry status boost forecast

By Deborah Hargreaves

The entry of Sweden, Finland and Austria into the European Union has doubled the region's woodland and should raise the status of the forest industry, which has previously been seen as a low priority, according to the Swedish Forest Industries Association.

"The forestry industry must co-ordinate its lobbying efforts to get EU politicians and the Commission to focus on the sector's needs," Ms Marie Scherwelinus, director of international relations, told a conference yesterday.

Forestry officials are concerned about the support for

## Market report

### Coffee retreats

London Commodity Exchange COFFEE futures prices gave up early gains yesterday afternoon following a weak opening in New York.

The March delivery contract fell \$48 on balance to \$2,800 a tonne, its lowest level since January 18, having been as high as \$2,882.

COCOA futures presented a mirror image of the coffee market, following New York higher after shrugging off early losses.

The March price ended up \$10 at \$2,933, having traded as high as \$2,102 and as low as \$2,777.

Compiled from Reuters

### End to EU farm policy uncertainty urged

By Caroline Southey in Brussels

Experts at the forefront of the debate on reform of the European Union's Common Agricultural Policy yesterday called for clarity and an end to uncertainty for Europe's farmers on what changes would be needed ahead of enlargement to the east.

Addressing the issues from the same platform for the first time were Mr Henri Nallet, who co-authored a report for the agriculture directorate, Mr Arne Larsen, responsible for a second commission report and Professor Allan Buckwell, one

of four academics to produce studies earlier this month for Sir Leon Brittan.

Mr Terry Wynn, a Member of the European Parliament and spokesman for the socialist group on budgetary affairs, also addressed the seminar on "CAP reform in the light of enlargement" organised by the Centre for European and Polity Studies in Brussels.

The authors repeated their earlier calls for changes to the CAP ahead of enlargement, but said reforms would be introduced over a long period. "Nobody believes there will never be any more reform. But most expect this process to go

on over a long period of time. There will not be a big bang," Mr Larsen said.

Mr Buckwell warned against polarising opinion in the debate on reform and "driving groups into corners". He said a review was necessary because an enlarged EU had to address how best to arrange policy for nearly 16m farmer, not 8m as now, as well as millions of new consumers.

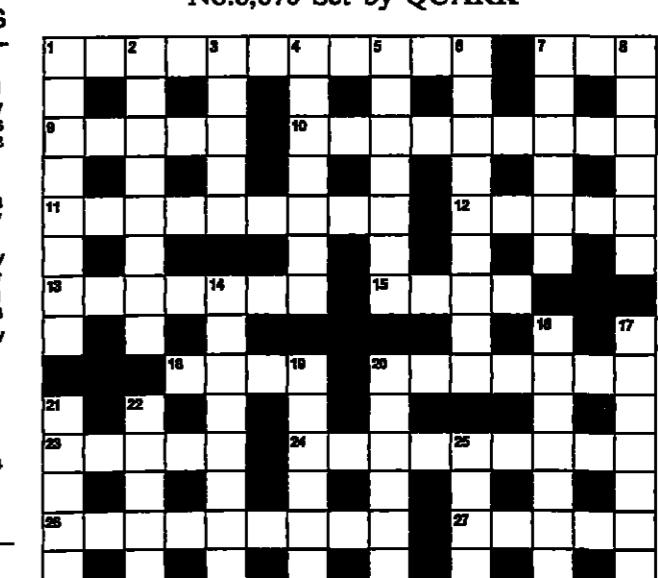
Mr Michael Tracy, director of Agricultural Policy Studies (APS) in Belgium who chaired the meeting, argued that ideas on changes to the CAP should "not remain the monopoly of the commission." He said a diversified sector by sector approach to the problem so that farmers could be provided with a clearer orientation.

Mr Wynn said it was unacceptable that the European Parliament had no control over CAP expenditure. In addition, he argued, social and regional funds should be used to sustain rural areas, not the CAP.

## JOTTER PAD

## CROSSWORD

No.8,670 Set by QUARK



## LONDON TRADED OPTIONS

Strike price \$/tonne — Calls — Puts —

### ALUMINIUM (95.7%) LME

Apr Jul Apr Jul

1200 155 157 117

1500 165 177

2000 185 197

2500 210 223

3000 240 252

3500 270 282

4000 300 312

4500 330 342

5000 360 372

5500 390 402

6000 420 432

6500 450 462

7000 480 492

7500 510 522

8000 540 552

8500 570 582

9000 600 612

9500 630 642

10000 660 672

10500 690 702

11000 720 732

11500 750 762

12000 780 792

12500 810 822

13000 840 852

13500 870 882

14000 900 912

14500 930 942

15000 960 972

15500 990 1002

16000 1020 1032

16500 1050 1062

17000 1080 1092

17500 1110 1122

18000 1140 1152

18500 1170 1182

19000 1200 1212

19500 1230 1242

20000 1260 1272

20500 1290 1302

21000 1320 1332

21500 1350 1362

22000 1380 1392

22500 1410 1422

23000 1440 1452

23500 1470 1482

24000 1500 1512

24500 1530 1542

25000 1560 1572

25500 1590 1602

26000 1620 1632

26500 1650 1662

27000 1680 1692

27500 1710 1722

28000 1740 1752

28500 1770 1782

29000 1800 1812

29500 1830 1842

30000 1860 1872

30500 1890 1902

31000 1920 1932

31500 1950 1962

## INTERNATIONAL CAPITAL MARKETS

**Political doubts again depress Italian issues**

By Graham Bowley in London  
and Lisa Bransten in New York

Political uncertainty continued to dog the Italian government bond market yesterday.

Traders pushed prices lower after a vote of confidence underlined prime minister Mr Lamberto Dini's fragile hold on power. The Italian March futures contract on Liffe fell ½ point after the vote, before recovering slightly. The yield premium over German bonds widened from 473 to 490 basis points.

"Mr Dini survived the vote but his future is still fairly uncertain," said Mr Kiran Shah, bond strategist at First Chicago in London.

"There is further downside

in the Italian market."

Elsewhere in Europe, government bond markets recovered some ground after falling in early trading to finish slightly ahead on the day.

In the UK, the first auction of ultra-long-dated gilts for almost two years was successful, providing an early boost to prices. The £2bn issue of 20-year gilts, which offered an 8 per cent coupon, was covered 1.79 times with a tail - the difference between the highest and the average accepted yield - of zero.

A spread of only one basis point between the highest and lowest accepted price bids was an indication of the strong demand for the long-dated bonds, analysts said.

Dealers said that pension funds, insurance companies and other institutional investors bought a large proportion of the gilts.

The long gilt future was up ½ at 100% in late trading.

**GOVERNMENT BONDS**

German government bonds moved higher in afternoon trade after bond futures on Liffe met with significant support at the 89.30 level.

Slightly lower-than-expected regional consumer price data provided a small boost to sentiment. But market attention continues to be occupied by M3

money supply data, due to be released soon, and next week's FOMC meeting in the US.

In late trade, the March bond future on Liffe was up 0.22 at 89.72.

The weakness of the krona on the foreign exchanges and a poorly-received auction of SKr7.5bn long-dated bonds pushed Swedish government bond prices lower.

Yields rose to 11.18 at 11.07 per cent and the spread against German bonds widened by 9 points to 353 basis points.

US Treasury prices were mostly flat yesterday morning as traders watched for hints of interest rate policy in testimony by Mr Alan Green-

span, chairman of the Federal Reserve, before two Congressional committees.

At midday, the benchmark 30-year Treasury was up ½ at 95½ to yield 7.91 per cent. At the short end of the market, the two-year note rose ¼ to 99½ to yield 7.534 per cent.

In testimony to the Senate Finance Committee, Mr Greenspan would not say whether the Fed would put rates up at the meeting of its Open Market Committee next week. Consensus on Wall Street was that the central bank would raise rates by 50 basis points at the meeting due to begin January 31.

Adding to downward pressure was the new supply to come from an afternoon auction of \$1bn in five-year notes.

**OTC dealers study draft code of trading conduct**

By Laurie Morse by Chicago

If the tenor of the draft "Wholesale Transactions Code of Conduct" being discussed in New York's financial community seems more than slightly defensive, it is for good reason.

Traders in over-the-counter (OTC) markets have operated in a clubby atmosphere with few written rules, but with elaborate and well understood trade practices.

OTC dealings in debt, foreign exchange, structured notes and derivatives have long been considered games between equals where each party is understood to be jockeying for the advantage.

However, OTC markets have broadened to include those whose trading is secondary to their main businesses, and their entrance, largely at the bidding of the established dealers, has confused relationships.

This is most evident in the OTC derivatives field, where municipalities, medium-sized corporations, and pension funds are ducking out of losing trades, claiming in high-profile court cases to have been misled, poorly advised, or kept in the dark by the counterparties to their trades.

US derivatives and securities

regulators, in a precedent-setting case settled quietly during Christmas week, agreed with one of these plaintiffs that dealers hold (and at times withhold) critical information, and with this advantage must assume more responsibility for fairness in a trade.

In lining

Bankers Trust

Securities \$10m for fraud in its derivative dealings with Gib-

son Greetings, a card and wrapping paper company, the Commodity Futures Trading Commission said the bank's advisory relationship with its client made it a commodity trading adviser, and hence subject to CFTC jurisdiction and the agency's anti-fraud rules.

This decision, and pressure from client-counterparties who are seeking to revise terms of trades after the fact, clearly impressed the group - mostly dealers - who are crafting standards of conduct, which they call the "Wholesale Transactions Code" in an effort to clarify OTC trading ground-rules for newcomers whose main businesses are not trading.

How palatable this will be to end-users and regulators remains to be seen. Calling a housecat a tiger does not make it a tiger. However, the use of written agreements to define customer/counterparty relationships in advance is a step that, if adopted universally, could lighten some of the confusion that surrounds customer responsibility in these private-market dealings.

**Investors await outcome of FOMC meeting**

By Martin Brice

Investors are sitting on the sidelines until the Federal Open Market Committee in the US on Tuesday, slowing euro-bond issuance.

They fear the FOMC may raise interest rates, and this makes placing dollar paper difficult before the meeting.

Issuance in yen has slowed since the Japanese earthquake, and an auction of long-dated

bonds is due on Wednesday.

**INTERNATIONAL BONDS**

UK government bonds yesterday made longer-dated sterling deals unlikely. This has left the D-Mark sector in the spotlight, with one syndicate official in Germany describing it yesterday as "a sort of safe haven".

However, he said: "The FOMC meeting is very critical for the D-Mark sector. We will follow the US." Arbitrage opportunities are difficult in the D-Mark sector, so syndi-

cates expect any offerings to come from issuers which need D-Marks. Deals from L-Bank, Italy and Finland are rumoured to be in the market.

Yesterday saw a DM200m deal from ING Bank brought through joint books Bayer LB and Merrill Lynch in Frankfurt, which said the bonds had received a good reception from both retail and institutional buyers. The bonds were given a five-year maturity to attract both sets of investors, said Merrill.

This issue was the first in D-Marks by ING Bank. It was brought at 23 basis points over the relevant bond, and when traded to trade widened out a tick to around 24, well within levels said Merrill.

The European Investment Bank raised Ecu400m with a bond via joint books SBC and CIC, which said the five-year maturity was targeted to attract both retail and institutional investors.

The issue was a move by the EIB to move its Ecu issues away from a purely retail

investor base, said SBC. The bonds were brought at a spread of 7 basis points under the relevant French government bond.

The New South Wales Treasury Corp raised A\$100m with a two-year issue sold at a deep discount through Nomura, which said the discount gave the bonds a yield to maturity of 9.64 per cent. The bonds carried a coupon of 4.5 per cent.

LW Rentenbank visited the

ira sector for the first time with Li\$60bn of bonds brought through joint books San Paolo and BCL which due to the confidence vote in parliament had created swap opportunities.

EBCI said: "We waited for the outcome of the confidence vote and decided to launch the transaction." It said flow-back of bonds had been thin.

A series of issues came in Luxembourg francs, all of

LiFr3bn or more, as a result of Belgium's decision to set a BFR2bn minimum on Eurobonds sold in the country. A record LiFr385bn worth were issued last year, most sold in Belgium.

The European Bank for Reconstruction and Development said proceeds of its five-year HK\$300m bond brought on Tuesday via UBS had been swapped into floating-rate US dollars.

It is expected to have a particular effect on Luxembourg franc issues - whose average size last year was LiFr1.3bn - since Belgium has provided the biggest market for paper issued in the Grand Duchy.

Local individual investors account for about three quarters of Belgian demand for Luxembourg franc eurobonds.

The revision was prompted by losses suffered by local investors after two issuers last

year defaulted on paper sold to local investors, according to bankers.

Other imminent changes include a requirement that at least three banks from European Union member states are involved in the syndication of the issues.

Several other modifications in Belgian regulations - including tighter rules on disclosure by issuers - were signalled last month.

**Lift for Luxembourg franc sector**

By Richard Lapper

New rules governing sales of eurobonds in Belgium are likely to improve the quality of issues denominated in Luxembourg francs, according to bankers active in this segment of the euromarket.

A rule stipulating that all issues sold in Belgium must be BFR2bn or more in size is expected to come into effect in the next few days.

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**WORLD BOND PRICES****BENCHMARK GOVERNMENT BONDS**

	Coupon	Date	Red	Price	Days' change	Yield	Week ago	Month ago	Year ago
Australia	9.000	03/04/95	-0.68*	91.9500	-0.08*	10.40	10.29	10.31	7.90
Austria	7.925	02/04/95	-0.110	77.711	-0.01	7.71	7.71	7.71	7.71
Belgium	7.729	10/04/95	-0.04	92.4400	-0.01	7.55	7.55	7.55	7.55
Canada	9.000	12/04/95	+0.100	94.7000	+0.05	9.52	9.50	9.51	8.50
Denmark	7.000	12/04/95	-0.05	86.5000	-0.01	9.06	9.01	8.76	8.76
France	8.750	05/08/95	-0.050	101.0900	-0.050	7.59	7.60	7.77	7.77
Germany	7.500	04/05/95	-0.303	95.4500	-0.18	8.16	8.13	8.10	8.10
Iceland	6.250	10/04/95	-0.250	90.8700	-0.05	8.70	8.68	8.64	8.64
Italy	8.500	02/04/95	-0.520	120.01	-0.12	12.03	12.03	12.03	12.03
Japan	No 118	4.800	06/09/95	103.2200	-0.040	3.73	3.73	3.73	3.73
No 164	4.100	12/03	96.1780	-0.030	4.71	4.67	4.58	4.58	4.58
Netherlands	7.000	10/04/95	-0.070	96.8500	-0.070	7.77	7.77	7.77	7.77
Spain	10.000	02/04/95	-0.100	11.94	-0.01	11.84	11.84	11.84	11.84
Sweden	6.000	02/05	69.7700	-0.220	11.16	10.93	10.92	10.92	10.92
UK Gilts	6.000	08/09	-0.04	-	-	8.68	8.68	8.60	8.60
US Treasury	7.500	11/04	-0.02	87.22	-0.02	8.74	8.68	8.62	8.62
7.500	10/08	102-10	+0.20	87.71	-0.02	8.71	8.64	8.50	8.50
7.500	10/12	102-12	+0.20	87.77	-0.02	8.77	8.77	8.77	8.77
7.500	11/04	95-03	+0.20	87.93	-0.02	8.74	8.74	8.74	8.74
ECU (French Govt)	6.000	04/04	83.6000	-0.100	8.64	8.57	8.60	8.60	8.60

London closing: \*New York mid-day  
† Gross (including withholding tax at 12.5 per cent payable by nonresident)  
Source: MMS International

**US INTEREST RATES****Lunchtime****Treasury Bills and Bond Yields**

	One month	Two months	Three months	Five months	Six months	One year
Price into	5.12	5.12	5.12	5.12	5.12	7.80
Broker rate into	5.12	5.12	5.12	5.12	5.12	7.71
Broker rate into	5.12	5.12	5.12	5.12	5.12	7.71
Refunds of intervention	5.12	5.12	5.12			

## CURRENCIES AND MONEY

## MARKETS REPORT

## Missiles and Mexico provide support to dollar

Optimism about a rescue package for Mexico and a false alarm about a Russian missile yesterday prompted a rally in the dollar, writes Philip Gash.

The dollar rose more than 1% yesterday off its low for the day of DM1.5035, to touch DM1.5152, before retreating to close in London at DM1.5188. It also made ground against the yen, rising off a low of Yen 92.2 to finish at Yen 93.69.

Technical analysts said the breach of DM1.5160 could indicate a significant upward move for the dollar. Other observers, however, cautioned that the dollar's fate depended on whether the Federal Reserve chose to raise interest rates next week, and whether a swap package for Mexico was passed by the US Congress.

One City analyst predicted that the dollar would go into a tailspin if a swap package was not approved soon.

Elsewhere, the main surprise was the poor performance of

the Italian lira after the new prime minister, Mr Lamberto Dini, successfully weathered a confidence debate.

Shortly before the vote, the lira traded at L1.047 against the D-Mark, but weakened on the outcome to close at L1.0583.

Sterling finished unchanged against the D-Mark, at DM2.4146, but closed at \$1.5904

against the dollar after earlier breaching \$1.59.

The Bank of England cleared a \$200m money market shortage, mostly through late operations.

■ The dollar received a lunchtime boost from reports, later shown to be false, that Russian air defences had shot down a missile. Earlier, President Clinton overnight "state of the

Union" address had been largely ignored.

More substantial gruel for investors came later in the form of a congressional appearance by Mr Alan Greenspan.

The market took comfort from his comments about inflation,

which were seen as improving chances of a rate rise next week.

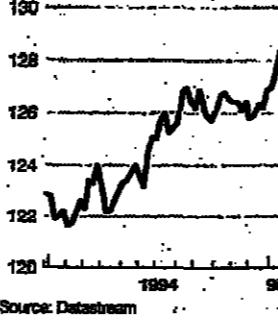
"It would be very surprising if the Fed chairman talked about inflationary pressures and declined to raise rates at the FOMC meeting," said Mr Michael Burke, international economist at Chilmark in London. This analysis gained some support from strong housing sales figures.

Analysts said that dollar bears had reassessed themselves following further poor US trade figures, and no signs of a slowdown in the economy.

Mr Robin Marshall, chief economist at Chase Manhattan in London, said the fall in the dollar was being inhibited by memories of November. The

## D-Mark

Trade weighted index, 1965 = 100



Source: Datastream

## basis.

Mr Paul Chertkow, head of global currency research at UBS in London said the keys to the dollar were Mexico and the Fed. He said the Congressional appearances of Mr Greenspan, and treasury secretary Mr Robert Rubin, had left Congress in no doubt of the importance of passing a Mexico support package.

"The alternative to that is a free-floating peso," said Mr Chertkow. This would make a nonsense of NAFTA - US exports to Mexico would become prohibitively expensive, harming both countries - and probably aggravate the flow of Mexican immigrants into the US.

Notwithstanding these concerns, Mr Chertkow said the Fed would not be held hostage to a weak peso. Policy would be set according to US domestic needs.

Despite the apparently positive technical outlook for the dollar, Mr Chertkow said hedge funds and investment banks

appeared to prefer the downside. Earlier there had been a rumour in the market that Mr Fred Bergsten, an influential US economist, had predicted the dollar falling to DM1.40.

■ Mr Dini's victory proved a chimera, as the market soon realised that the combination of abstentions and no votes outnumbered the support garnered by the prime minister.

Mr Dini's position is clearly susceptible to sabotage from Mr Silvio Berlusconi, the former prime minister, whose supporters abstained in yesterday's vote. Analysts warned, though, that Mr Berlusconi's chances in a subsequent election might be harmed if he was perceived as a spoiler.

■ OTHER CURRENCIES

Jan 25 Short 7 days One Three Six One term notice month notice month months year Interbank \$

Belgian Franc 4B - 4B 5-6 5-6 5-6 5-6 5-6 5-6

D-Mark 5-6 5-6 5-6 5-6 5-6 5-6 5-6 5-6

Denmark 5-6 5-6 5-6 5-6 5-6 5-6 5-6 5-6

Finland 5-6 5-6 5-6 5-6 5-6 5-6 5-6 5-6

France 5-6 5-6 5-6 5-6 5-6 5-6 5-6 5-6

Germany 5-6 5-6 5-6 5-6 5-6 5-6 5-6 5-6

Iceland 5-6 5-6 5-6 5-6 5-6 5-6 5-6 5-6

Italy 5-6 5-6 5-6 5-6 5-6 5-6 5-6 5-6

Ireland 5-6 5-6 5-6 5-6 5-6 5-6 5-6 5-6

Japan 5-6 5-6 5-6 5-6 5-6 5-6 5-6 5-6

UK 5-6 5-6 5-6 5-6 5-6 5-6 5-6 5-6

Source: Datastream

## WORLD INTEREST RATES

## MONEY RATES

January 25 Over 7 days One Three Six One term notice month notice month months year Interbank \$

Belgium 5-6 5-6 5-6 5-6 5-6 5-6 5-6 5-6

France 5-6 5-6 5-6 5-6 5-6 5-6 5-6 5-6

Germany 5-6 5-6 5-6 5-6 5-6 5-6 5-6 5-6

Iceland 5-6 5-6 5-6 5-6 5-6 5-6 5-6 5-6

Italy 5-6 5-6 5-6 5-6 5-6 5-6 5-6 5-6

Netherlands 5-6 5-6 5-6 5-6 5-6 5-6 5-6 5-6

Spain 5-6 5-6 5-6 5-6 5-6 5-6 5-6 5-6

UK 5-6 5-6 5-6 5-6 5-6 5-6 5-6 5-6

Source: Datastream

## EURO CURRENCY INTEREST RATES

## INTERBANK

January 25 Short 7 days One Three Six One term notice month notice month months year Interbank \$

Belgian Franc 4B - 4B 5-6 5-6 5-6 5-6 5-6 5-6

D-Mark 4-5 4-5 5-6 5-6 5-6 5-6 5-6 5-6

Denmark 5-6 5-6 5-6 5-6 5-6 5-6 5-6 5-6

Finland 5-6 5-6 5-6 5-6 5-6 5-6 5-6 5-6

France 5-6 5-6 5-6 5-6 5-6 5-6 5-6 5-6

Germany 5-6 5-6 5-6 5-6 5-6 5-6 5-6 5-6

Iceland 5-6 5-6 5-6 5-6 5-6 5-6 5-6 5-6

Italy 5-6 5-6 5-6 5-6 5-6 5-6 5-6 5-6

Netherlands 5-6 5-6 5-6 5-6 5-6 5-6 5-6 5-6

Spain 5-6 5-6 5-6 5-6 5-6 5-6 5-6 5-6

UK 5-6 5-6 5-6 5-6 5-6 5-6 5-6 5-6

Source: Datastream

## LIBOR

## INTERBANK

January 25 Short 7 days One Three Six One term notice month notice month months year Interbank \$

Belgian Franc 5-6 5-6 5-6 5-6 5-6 5-6 5-6 5-6

D-Mark 5-6 5-6 5-6 5-6 5-6 5-6 5-6 5-6

Denmark 5-6 5-6 5-6 5-6 5-6 5-6 5-6 5-6

Finland 5-6 5-6 5-6 5-6 5-6 5-6 5-6 5-6

France 5-6 5-6 5-6 5-6 5-6 5-6 5-6 5-6

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Spain 5-6 5-6 5-6 5-6 5-6 5-6 5-6 5-6

UK 5-6 5-6 5-6 5-6 5-6 5-6 5-6 5-6

Source: Datastream

## LIBOR

## INTERBANK

January 25 Short 7 days One Three Six One term notice month notice month months year Interbank \$

Belgian Franc 5-6 5-6 5-6 5-6 5-6 5-6 5-6 5-6

D-Mark 5-6 5-6 5-6 5-6 5-6 5-6 5-6 5-6

Denmark 5-6 5-6 5-6 5-6 5-6 5-6 5-6 5-6

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Netherlands 5-6 5-6 5-6 5-6 5-6 5-6 5-6 5-6

Spain 5-6 5-6 5-6 5-6 5-6 5-6 5-6 5-6

UK 5-6 5-6 5-6 5-6 5-6 5-6 5-6 5-6

Source: Datastream

## LIBOR

## INTERBANK

January 25 Short 7 days One Three Six One term notice month notice month months year Interbank \$

Belgian Franc 5-6 5-6 5-6 5-6 5-6 5-6 5-6 5-6

D-Mark 5-6 5-6 5-6 5-6 5-6 5-6 5-6 5-6

Denmark 5-6 5-6 5-6 5-6 5-6 5-6 5-6 5-6

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Iceland 5-6 5-6 5-6 5-6 5-6 5-6 5-6 5-6

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Netherlands 5-6 5-6 5-6 5-6 5-6 5-6 5-6 5-6

Spain 5-6 5-6 5-6 5-6 5-6 5-6 5-6 5-6

UK 5-6 5-6 5-6 5-6 5-6 5-6 5-6 5-6

Source: Datastream

## LIBOR

## INTERBANK

January 25 Short 7 days One Three Six One term notice month notice month months year Interbank \$

Belgian Franc 5-6 5-6 5-6 5-6 5-6 5-6 5-6 5-6

D-Mark 5-6 5-6 5-6 5-6 5-6 5-6 5-6 5-6

Denmark 5-6 5-6 5-6 5-6 5-6 5-6 5-6 5-6

Finland 5-6 5-6 5-6 5-6 5-6 5-6 5-6 5-6

France 5-6 5-6 5-6 5-6 5-6 5-6 5-6 5-6





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# **OFFSHORE AND OVERSEAS**

**BERMUDA IS A RECOGNISED**

**GUERNSEY** (SIB RECOGNISED)

## **CONTRACTS & TENDERS**

## **NOTICE OF TENDER FOR BID OFFERS**

## **Avviso di confronto concorrenziale**

The City of Terni (Italy)  
pursuant to Article 12 of Law no. 498/92, promotes a tender for bid offer in order to select one or more private partners to form a Company whose stock's majority will belong to the City, with option to assign the stock. The Company will be assigned the management of the structures of Videocentro and Bibliomediateca, which together constitute the Multimedia Center (i.e. Centro Multimediale) of Terni, as provided by Axis 2, Action 2.6 of the Sole Document of program 1994/96, relating to Social and Regional Conversion Plan of declining industrial areas of Umbria (IEC Reg. no. 2081/93 - Target 2).

- Univora (IEC Reg. No. 2001/93 - Target 2).

The private partners must have the following requisites:

  1. strategic position in the market of telecommunications and multimedia services and products;
  2. ability to attract and draw medium and small size industries (i.e. PMI), either national or international, engaged in the market of multimedia services and products;
  3. ability to attract entities having relevant industrial interests in the sectors of telecommunication, consumer electronics, data processing (HW and SW), electronic publishing and audiovisual, broadcasting and movie productions;
  4. relevant financial capability with respect also to the completion of the Center's structures and possible future investments;
  5. availability to assume the commitment of jointly managing the Center for at least 15 years.

Center for at least 15 years.  
Entities who are interested must send by no later than February 15, 1995 their request to participate in the tender, with enclosed documentation showing the above mentioned subjective and objective requisites, to the address of

**Assessorato al Centro Multimediale,  
COMUNE DI TERNI (Italy).**

where further information can be acquired.

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Price	Date	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	100	101	102	103	104	105	106	107	108	109	110	111	112	113	114	115	116	117	118	119	120	121	122	123	124	125	126	127	128	129	130	131	132	133	134	135	136	137	138	139	140	141	142	143	144	145	146	147	148	149	150	151	152	153	154	155	156	157	158	159	160	161	162	163	164	165	166	167	168	169	170	171	172	173	174	175	176	177	178	179	180	181	182	183	184	185	186	187	188	189	190	191	192	193	194	195	196	197	198	199	200	201	202	203	204	205	206	207	208	209	210	211	212	213	214	215	216	217	218	219	220	221	222	223	224	225	226	227	228	229	230	231	232	233	234	235	236	237	238	239	240	241	242	243	244	245	246	247	248	249	250	251	252	253	254	255	256	257	258	259	260	261	262	263	264	265	266	267	268	269	270	271	272	273	274	275	276	277	278	279	280	281	282	283	284	285	286	287	288	289	290	291	292	293	294	295	296	297	298	299	300	301	302	303	304	305	306	307	308	309	310	311	312	313	314	315	316	317	318	319	320	321	322	323	324	325	326	327	328	329	330	331	332	333	334	335	336	337	338	339	340	341	342	343	344	345	346	347	348	349	350	351	352	353	354	355	356	357	358	359	360	361	362	363	364	365	366	367	368	369	370	371	372	373	374	375	376	377	378	379	380	381	382	383	384	385	386	387	388	389	390	391	392	393	394	395	396	397	398	399	400	401	402	403	404	405	406	407	408	409	410	411	412	413	414	415	416	417	418	419	420	421	422	423	424	425	426	427	428	429	430	431	432	433	434	435	436	437	438	439	440	441	442	443	444	445	446	447	448	449	450	451	452	453	454	455	456	457	458	459	460	461	462	463	464	465	466	467	468	469	470	471	472	473	474	475	476	477	478	479	480	481	482	483	484	485	486	487	488	489	490	491	492	493	494	495	496	497	498	499	500	501	502	503	504	505	506	507	508	509	510	511	512	513	514	515	516	517	518	519	520	521	522	523	524	525	526	527	528	529	530	531	532	533	534	535	536	537	538	539	540	541	542	543	544	545	546	547	548	549	550	551	552	553	554	555	556	557	558	559	560	561	562	563	564	565	566	567	568	569	570	571	572	573	574	575	576	577	578	579	580	581	582	583	584	585	586	587	588	589	590	591	592	593	594	595	596	597	598	599	600	601	602	603	604	605	606	607	608	609	610	611	612	613	614	615	616	617	618	619	620	621	622	623	624	625	626	627	628	629	630	631	632	633	634	635	636	637	638	639	640	641	642	643	644	645	646	647	648	649	650	651	652	653	654	655	656	657	658	659	660	661	662	663	664	665	666	667	668	669	670	671	672	673	674	675	676	677	678	679	680	681	682	683	684	685	686	687	688	689	690	691	692	693	694	695	696	697	698	699	700	701	702	703	704	705	706	707	708	709	710	711	712	713	714	715	716	717	718	719	720	721	722	723	724	725	726	727	728	729	730	731	732	733	734	735	736	737	738	739	740	741	742	743	744	745	746	747	748	749	750	751	752	753	754	755	756	757	758	759	760	761	762	763	764	765	766	767	768	769	770	771	772	773	774	775	776	777	778	779	780	781	782	783	784	785	786	787	788	789	790	791	792	793	794	795	796	797	798	799	800	801	802	803	804	805	806	807	808	809	810	811	812	813	814	815	816	817	818	819	820	821	822	823	824	825	826	827	828	829	830	831	832	833	834	835	836	837	838	839	840	841	842	843	844	845	846	847	848	849	850	851	852	853	854	855	856	857	858	859	860	861	862	863	864	865	866	867	868	869	870	871	872	873	874	875	876	877	878	879	880	881	882	883	884	885	886	887	888	889	890	891	892	893	894	895	896	897	898	899	900	901	902	903	904	905	906	907	908	909	910	911	912	913	914	915	916	917	918	919	920	921	922	923	924	925	926	927	928	929	930	931	932	933	934	935	936	937	938	939	940	941	942	943	944	945	946	947	948	949	950	951	952	953	954	955	956	957	958	

## MARKET REPORT

**Bid speculation shifts to the banking sector**

By Terry Byland,  
UK Stock Market Editor

The UK stock market yesterday continued its recovery, although displaying its underlying fragility by a sudden downswipe at midday, before it was confirmed that a missile fired from Norway was merely part of a scientific research programme. Wall Street, which also finished in the face of the first missile reports, was edging ahead when London closed, with both markets scanning the speech by Mr Alan Greenspan, chairman of the Federal Reserve, to the US Senate finance committee.

The FT-SE 100-share Index ended the session at 2,983.8, a net gain of 13.2. But the uncertainty across the market was reflected in a dip of 4.8 to 3,390.8 in the FT-SE Mid 250

Index. The second line stocks, which feature in the Mid 250 index, had no time to rally from the mid-session setback on the missile reports.

Takeover speculation provided the highlights, with market attention switching to the banking sector. Nearly 26m shares in TSB were traded as dealers recited a long list of possible bidders. Banque National de Paris was the first name out of the hat, but it was quickly followed by a host of others.

Kleinwort Benson was another to join in the takeover excitement in the banking sector, first set alive this week by renewed demand for S.G. Warburg shares and its Mercury Asset Management arm.

Eccentric trading was also seen in the telecommunications sector, where Cable and Wireless again

responded vigorously to the admission by Veba of Germany, that it was holding discussions with several other international telecoms groups, with a view to taking a role in the German telecoms industry after privatisation.

The pharmaceuticals sector, where Glaxo's £9.4bn approach to Wellcome first set off the market's bid alarms, remained busy, although share prices stayed around the new levels established this week.

The trading session started well, with equities opening firmly on the back of further recoveries in Far Eastern markets and a calm performance overnight on Wall Street. The stock market was also helped by a good reception for the day's auction of £2bn of British government securities.

After peaking early at 2,986.5 on the Footsie, up more than 17 points, the market slowed down and then fell briefly into negative territory as the market reacted with shock to the first reports from Norway.

Trading volume was slow at first, but the Seaq total was boosted strongly when a fresh host of very large delayed deals crossed the screens. The trades, whose reporting had been legitimately held back for five days under Stock Exchange regulations, included 16.5m shares in Hanson, 4.1m in BAT industries, 4.8m in Tesco and 3.8m in Argyll.

They were believed to be the meat of large programme trades transacted last week probably by Goldman Sachs, the UK investment bank, on behalf of an investment client. The delayed reporting of these

very large trades continued to distort trading. Yesterday's Seaq total of 636.8m shares compared with 680.5m on Tuesday. Both are higher than recent daily averages and Stock Exchange data disclosed that Tuesday's retail, or customer, business in equities was worth £1.5bn, a level associated with bull market experiences. Interest rates worries took a back seat yesterday, although attention was still focused on tomorrow's US GDP numbers.

The state of takeover speculation in pharmaceuticals, banks and telecommunications stocks has not come as a complete surprise to the London market. All three sectors have been identified as international business markets ripe for reshaping, with the London-based companies inevitably in the front line of the struggle.

**Heavy trade in TSB**

The vague bid stories that began to circulate around TSB at the end of last week erupted yesterday. They drove TSB shares up to their highest level since March 1984 and produced the third-biggest day's trading in the stock.

At the close the shares were 16 higher at 248p, having touched a session's high of 253p. Turnover reached 26m shares, with activity in the traded options market equivalent to a further 6.5m.

A surge in the share price at the start of trading yesterday produced a wave of rumours that an announcement was imminent. Dealers produced a long list of supposed bidders, kicking off with Banque Nationale de Paris and quickly moving on to include BAT, BT, Marks and Spencer and Prudential Group.

A statement from TSB saying it knew of no reason for the sharp rise in the shares failed to dampen the speculation. Although acknowledging that such heavy turnover indicated some sort of corporate move could be imminent, banking specialists were sceptical about the stories.

"An exit price of 300p would value TSB at £4.3bn; BN's market capitalisation is only £4.8bn; a bid would strain

BNP," said one analyst. He pointed out that apart from Japanese, French and UK banks, it was difficult to see who had the firepower to launch a bid for Kleinwort.

TSB was floated in the mid 1980s but lost its way after disastrous acquisitions including Hill Samuel, the merchant bank, bought just before the great crash of October 1987, and the Target unit trust group.

**Banks surge** The financial areas were ablaze with dealers talking of a big bid to hit the banking or merchant banking sectors. TSB was the market's favourite to attract a bid, but there was also strong speculation that one of the large merchant banks, S.G. Warburg or Kleinwort Benson, were prime targets.

Dresdner, the German bank, was again being spoken of as about to bid for either of the two banks mentioned, possibly in an attempt to match the great success of Deutsche Bank's link with Morgan Grenfell, the UK merchant bank it acquired some years ago.

Warburg moved up 6 to 754p and those of its asset management subsidiary Mercury, up 18 to 757p. Turnover in both stocks was much lower than of late, however, with dealers pointing instead to the above average activity in Kleinwort.

Among utilities, Severn Trent advanced 14 to 502p in the wake of a buy note issued by UBS, the securities house. The recs were only lightly traded in spite of vague talk

11 up at 599p. Another story doing the rounds of the market was that ING, the Dutch insurance group, was about to launch a bid for Kleinwort.

In the mainstream banks, Standard Chartered, where Lloyds Bank retains a 4.7 per cent stake, was also being touted as a bid candidate and the shares raced up 10 to 265p, helped by a strong Hong Kong market. Royal Bank of Scotland jumped 14 to 383p.

Cable and Wireless raced ahead to close 14 up at 378p, responding to vague takeover stories, including rumours that Veba, the German telecoms group, is about to take a 10 per cent stake in Mercury. C&W's telecoms division C&W stock was also stimulated by the strong performance of all Far Eastern markets.

Among utilities, Severn Trent advanced 14 to 502p in the wake of a buy note issued by UBS, the securities house. The recs were only lightly traded in spite of vague talk

that a bidder may be about to emerge for South Western Electricity. SWEB shares eased 2 to 812p.

Pharmaceuticals giant Glaxo slipped to 600p, reflecting the arbitrage with its bid target, Wellcome. Assuming the bid goes ahead the latter, which eased a penny to 954p, active two-way business that prompted turnover of 8.5m shares, offers a cheap way into Glaxo. However, Lehman Brothers has upgraded its previous lukewarm stance on Glaxo on the basis of the huge cost savings that a merger would offer. The house now believes the company can provide earnings per share growth of between 8 and 10 per cent a year.

Reuters improved 6% to 420p, with Henderson Crosthwaite voicing its enthusiasm for the stock. RTZ, the world's biggest mining group, rose 6 to 769p as NatWest Securities raised its forecasts for the company. It

argued that the stock was on a discount to the market and at the bottom of its trading range.

Yorshire-Tyre Tees Television shot up 26 to 415p on thin volume because of a bear squeeze.

Paint manufacturer Kalon

tumbled to 10 to 991p on worries that it might lose its contract with Texas Homecare following news of the proposed Sabineh acquisition.

British Aerospace jumped a further 12% to 472p, with the stock market continuing to focus on the group's chances of a big reduction in turbo prop losses. BA is facing strong orders for its Jetstream range, and could shortly announce a link-up with Franco-German joint venture ATR. BA shares have risen almost 6 per cent in eight trading days to outperform the Footsie by 5 per cent.

Textile leaders were flagging as investors considered the enduring pressures of high raw material prices and economic problems in some of its markets. Coats Viyella shed 1% to 177p, with some nervousness about the new finance director overhauling sentiment. Court and Textiles declined 3 to 143p. Allied Textiles slid 11 to 502p in spite of a 24 per cent profits rise.

Argyl improved 2% to 380p, with turnover of 16m shares helped by three large block trades. Takeover talk persisted, as it did with United Biscuits, which rose 12% to 321p.

**Conglomerate Hanson**, which has been seen as a potential bidder, was steady at 233p. The shares were restrained by some exceptionally heavy delayed trades which were initially carried out five trading days before but, under stock market regulations, did not need to be reported until yesterday. Turnover of 14m shares included a block of 9m

dealt at 2441p. Channel tunnel operator Eurotunnel advanced 9 to 297p. Press reports of an increase from two to four runs a day for through Eurostar trains to the Continent helped send the stock to February 9 when the stock formally enters the CAC-40, the French bourse's leading equity index.

Talk of a breakthrough on costs at USAir left British Airways 1% higher at 355p in 3.1m turnover. BA has a 24.9 per cent stake in the troubled US airline.

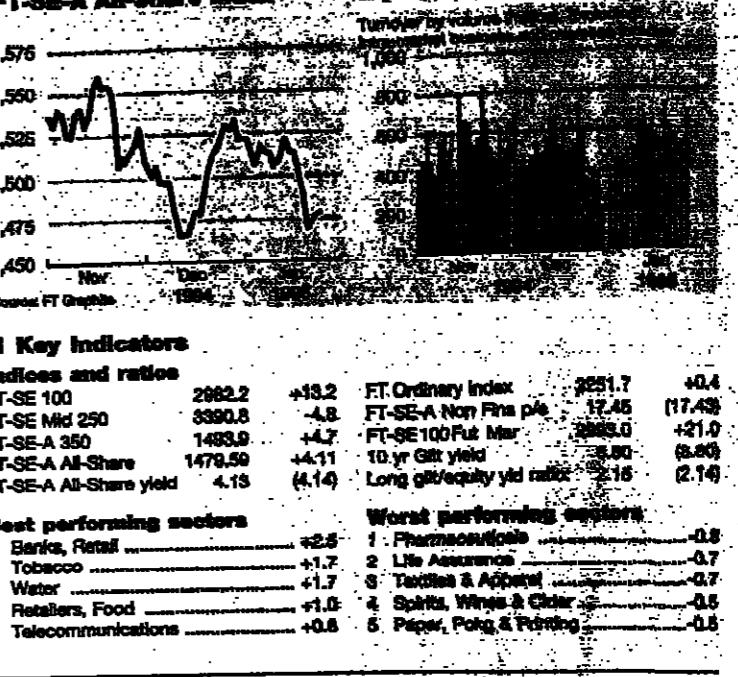
**MARKET REPORTERS:**

Steve Thompson,

Peter John,

Jeffrey Brown.

## FT-SE-A All-Shares Index



## Key Indicators

Indices and ratios	FT-SE 100	FT-SE Mid 250	FT-SE-A 350	FT-SE-A All-Share	FT-SE-A All-Share yield	FT Ordinary Index	FT-SE Non Fin. p/c	10 yr Gilt Yield	Long Giltday yield ratio
	2962.2	5330.8	1493.9	1479.5	4.13	2951.7	117.45	10.11	1.11
	+132	-4.8	-4.7	-4.1	(4.14)	+132	-17.45	-0.00	-0.00

## Best performing sectors

1 Banks, Retail	2 Tobacco	3 Water	4 Retailers, Food	5 Telecommunications
+2.6	+1.7	+1.7	+1.0	+0.8

## Worst performing sectors

1 Pharmaceuticals	2 Life Assurance	3 Textiles & Apparel	4 Sports, Leisure & Media	5 Paper, Packaging & Printing
-0.5	-0.7	-0.7	-0.5	-0.5

## FUTURES AND OPTIONS

FT-SE 100 INDEX FUTURES L1000 £10 per 100 points	Open	Sett. price	Change	High	Low	Vol.	Open Int.
Mar	2971.0	2960.0	-10.00	2980.0	2950.0	10,000	29,973
Jun	2982.0	2970.0	-10.00	2982.0	2952.0	0	34
Aug	2982.0	2972.0	-10.00	2982.0	2952.0	0	34
Oct	2982.0	2972.0	-10.00	2982.0	2952.0	0	34
Dec	2982.0	2972.0	-10.00	2982.0	2952.0	0	34

## FT-SE MID 250 INDEX FUTURES L250 £10 per 100 points

FT-SE MID 250 INDEX FUTURES L250 £10 per 100 points	Open	Sett. price	Change	High	Low	Vol.	Open Int.
Mar	2982.0	2972.0	-10.00	2982.0	2952.0	0	34
Jun	2982.0	2972.0	-10.00	2982.0	2952.0	0	34
Aug	2982.0	2972.0	-10.00	2982.0	2952.0	0	34
Oct	2982.0	2972.0	-10.00	2982.0	2952.0	0	34
Dec	2982.0	2972.0	-10.00	2982.0	2952.0	0	34



## **NEW YORK STOCK EXCHANGE COMPOSITE PRICES**

# **NYSE COMPOSITE PRICES**

**4 pm close January 25**

# **NASDAQ NATIONAL MARKET**

*4 pm close January 25*

Stock	Div.	P	52w	Hgh	Low	Last	Cong	Stock	Div.	P	52w	Hgh	Low	Last	Cong	Stock	Div.	P	52w	Hgh	Low	Last	Cong			
ABS Inc	D	120	13	80	121 <sup>2</sup>	12	121 <sup>4</sup>	Digi Comp	D	172,238	432 <sup>2</sup>	415 <sup>2</sup>	424 <sup>2</sup>	-1%	-1%	K-Swiss	D	0.05	8	110	204 <sup>2</sup>	20	20	-		
ACC Corp	D	0.12	13	177	163 <sup>2</sup>	16	163 <sup>2</sup>	+14	Dimly	D	0.30	29	1758	34	334 <sup>2</sup>	34	+2	Kemper Cp	D	0.44	12	697	104 <sup>2</sup>	10	10	-1%
AEGEAN E	D	13,330	14 <sup>2</sup>	14 <sup>2</sup>	13 <sup>2</sup>	14 <sup>2</sup>	-	Dip Gty	D	1.12	5	702	324 <sup>2</sup>	314 <sup>2</sup>	324 <sup>2</sup>	+2	KelleyOil	D	1	707	41 <sup>2</sup>	376	41 <sup>2</sup>	+14	-	
Aerost. Mills	D	7	571	15	183 <sup>2</sup>	183 <sup>2</sup>	-	Dixie	D	0.26	8	192	84 <sup>2</sup>	8	8	-	Kelly Sv	D	0.72	20	307	31	305 <sup>2</sup>	304 <sup>2</sup>	-	
Aerton Cp	D	23	306	15 <sup>2</sup>	15 <sup>2</sup>	15 <sup>2</sup>	-	Diversi B	D	0.80	16	268	184 <sup>2</sup>	174 <sup>2</sup>	174 <sup>2</sup>	-	Kentucky	D	0.11	32	6	52	54 <sup>2</sup>	54 <sup>2</sup>	+8	
Adaptotech	D	18,1207	28	284 <sup>2</sup>	284 <sup>2</sup>	-	Digi Int'l	D	17	1652	214 <sup>2</sup>	202 <sup>2</sup>	202 <sup>2</sup>	-2	Kennedy	D	0.84	13	57	241 <sup>2</sup>	24	244 <sup>2</sup>	+4			
ADC Tele	D	33,1269	49 <sup>2</sup>	49	487 <sup>2</sup>	487 <sup>2</sup>	+8	Dig Micro	D	26	1203	17	18	165 <sup>2</sup>	-	Kirkland	D	0.87	37	3869	531 <sup>2</sup>	512 <sup>2</sup>	534 <sup>2</sup>	+12		
Addington	D	7	59	114 <sup>2</sup>	104 <sup>2</sup>	114 <sup>2</sup>	+5	Dig Sound	D	31	1157	23 <sup>2</sup>	21 <sup>2</sup>	21 <sup>2</sup>	-	KLIA Inst	D	0	476	3 <sup>2</sup>	11	11 <sup>2</sup>	-	-		
Adis Serv	D	0.16	18	2325	352 <sup>2</sup>	345 <sup>2</sup>	354 <sup>2</sup>	-	Dig Syst	D	41,030	61 <sup>2</sup>	6	64 <sup>2</sup>	-	Konink Inc	D	42,3843	25 <sup>2</sup>	24 <sup>2</sup>	254 <sup>2</sup>	-	-			
Adobe Sys	D	0,0230017342	30 <sup>2</sup>	29 <sup>2</sup>	30 <sup>2</sup>	-	Dikes Cp	D	16	55	40	38 <sup>2</sup>	38 <sup>2</sup>	-	Koike S	D	16,1008	20 <sup>2</sup>	19 <sup>2</sup>	20	-2	-				
Advance C	D	11	232	14 <sup>2</sup>	13 <sup>2</sup>	13 <sup>2</sup>	-	Dime	D	0.20	1	805	3 <sup>2</sup>	3	3 <sup>2</sup>	-	-	-	-	-	-	-	-			
Adv Logic	D	69	199	51 <sup>2</sup>	45 <sup>2</sup>	45 <sup>2</sup>	-	DNA Plant	D	2.25	1	805	3 <sup>2</sup>	3	3 <sup>2</sup>	-	-	-	-	-	-	-	-			
Adv Polym	D	8	246	4 <sup>2</sup>	4 <sup>2</sup>	4 <sup>2</sup>	-	Dollar Ga	D	0.20	20	2061	314 <sup>2</sup>	304 <sup>2</sup>	314 <sup>2</sup>	+2	-	-	-	-	-	-	-			
AdvTechLab	D	22	60	16 <sup>2</sup>	16	16 <sup>2</sup>	-	Dorch Hts	D	0.96	16	2	113 <sup>2</sup>	114 <sup>2</sup>	114 <sup>2</sup>	-	-	-	-	-	-	-	-			
Adwest	D	0.27	12	873	307 <sup>2</sup>	294 <sup>2</sup>	301 <sup>2</sup>	+2	DressEncy	D	10	2108	9	9	8	-	-	-	-	-	-	-	-			
Agfa Gold	D	0.10	30	82	11 <sup>2</sup>	110 <sup>2</sup>	10	-	Dresser	D	13	233	103 <sup>2</sup>	104 <sup>2</sup>	104 <sup>2</sup>	-	-	-	-	-	-	-	-			
Agilent	D	14,4380	183 <sup>2</sup>	183 <sup>2</sup>	183 <sup>2</sup>	-	Drey GD	D	0,04116	484	261 <sup>2</sup>	274 <sup>2</sup>	28	+1	-	-	-	-	-	-	-	-				
Alco ADR	D	1.51	15	188	57 <sup>2</sup>	57 <sup>2</sup>	57 <sup>2</sup>	-	Dry Espe	D	0.08	10	430	51 <sup>2</sup>	55	5 <sup>2</sup>	-	-	-	-	-	-	-			
Alfa Laval	D	0.88	13	215	213 <sup>2</sup>	214 <sup>2</sup>	214 <sup>2</sup>	-	DS Bancor	D	1.08	10	268	221 <sup>2</sup>	221 <sup>2</sup>	221 <sup>2</sup>	+2	-	-	-	-	-	-	-		
Allegro & W	D	11	41	111 <sup>2</sup>	111 <sup>2</sup>	111 <sup>2</sup>	+8	Dufur	D	0.42	18	1122	181 <sup>2</sup>	173 <sup>2</sup>	173 <sup>2</sup>	-	-	-	-	-	-	-	-			
Allen Org	D	0.52	12	3	38	38	38	-	Dynatech	D	13	1957	351 <sup>2</sup>	344 <sup>2</sup>	344 <sup>2</sup>	+4	-	-	-	-	-	-	-			
Allen Pb	D	3	592	65 <sup>2</sup>	64 <sup>2</sup>	64 <sup>2</sup>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
Alld Cap	D	1.00	12	39	14 <sup>2</sup>	13 <sup>2</sup>	14 <sup>2</sup>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
Allosite C	D	0.22	8	40	15 <sup>2</sup>	15 <sup>2</sup>	15 <sup>2</sup>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
Allia Gold	D	0.08	53	173	11 <sup>2</sup>	12 <sup>2</sup>	11 <sup>2</sup>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
Allora Co	D	69,5501	47 <sup>2</sup>	46 <sup>2</sup>	47 <sup>2</sup>	47 <sup>2</sup>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
Am Banker	D	0.72	9	266	24 <sup>2</sup>	24 <sup>2</sup>	24 <sup>2</sup>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
AmChay	D	0.16	40	75	14 <sup>2</sup>	14	14 <sup>2</sup>	+4	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
Am City Bu	D	23	25	16	154 <sup>2</sup>	154 <sup>2</sup>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
Am Manag	D	17,1930	17 <sup>2</sup>	17 <sup>2</sup>	17 <sup>2</sup>	17 <sup>2</sup>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
Am Med El	D	11	507	57 <sup>2</sup>	56 <sup>2</sup>	57 <sup>2</sup>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
Am Sotheb	D	0.32	8	324	3	24 <sup>2</sup>	3 <sup>2</sup>	+1	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
Am Trave	D	25	428	21 <sup>2</sup>	21 <sup>2</sup>	21 <sup>2</sup>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
AmTecP	D	0.24	14	154	22 <sup>2</sup>	22 <sup>2</sup>	22 <sup>2</sup>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
Amgen Inc	D	20,1908	60 <sup>2</sup>	59 <sup>2</sup>	59 <sup>2</sup>	59 <sup>2</sup>	+1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
Amtech Cp	D	0.08	13	1368	10 <sup>2</sup>	10 <sup>2</sup>	10 <sup>2</sup>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
Analogic	D	15	151	18 <sup>2</sup>	18 <sup>2</sup>	18 <sup>2</sup>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
Analysts	D	0.52	16	114	21 <sup>2</sup>	20 <sup>2</sup>	20 <sup>2</sup>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
AnalystGm	D	1.00	16	258	15 <sup>2</sup>	14 <sup>2</sup>	14 <sup>2</sup>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
Andrew Cp	D	28	889	55 <sup>2</sup>	53 <sup>2</sup>	54 <sup>2</sup>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
Andros An	D	11	7	18 <sup>2</sup>	16	16	-2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
Apogee En	D	0.32	23	219	16 <sup>2</sup>	16 <sup>2</sup>	16 <sup>2</sup>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
APP Bio	D	50	708	55 <sup>2</sup>	54 <sup>2</sup>	54 <sup>2</sup>	+4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
Appi Mat	D	16,63541	41 <sup>2</sup>	40	40 <sup>2</sup>	2 <sup>2</sup>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
AppleC	D	0.48	10,45663	42	39 <sup>2</sup>	40 <sup>2</sup>	40 <sup>2</sup>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
Applebee	D	0.05	32	508	184 <sup>2</sup>	17 <sup>2</sup>	18	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
Arter Dr	D	0.30	24	513	22 <sup>2</sup>	21 <sup>2</sup>	22 <sup>2</sup>	+2	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
Arctics	D	1.14	25,232	16 <sup>2</sup>	15 <sup>2</sup>	15 <sup>2</sup>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
Argus	D	1.18	8	131	29 <sup>2</sup>	28 <sup>2</sup>	28 <sup>2</sup>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
Armor Al	D	0.84	18	558	21 <sup>2</sup>	20 <sup>2</sup>	21 <sup>2</sup>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
Arnold Is	D	0.44	15	581	184 <sup>2</sup>	17 <sup>2</sup>	17 <sup>2</sup>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
AspectTef	D	20	645	34	32 <sup>2</sup>	34 <sup>2</sup>	33 <sup>2</sup>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
AST Ranch	D	10,62082	18	15	154 <sup>2</sup>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
Attkdron	D	5	249	104 <sup>2</sup>	93 <sup>2</sup>	93 <sup>2</sup>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
AT SEAir	D	0.32	10	1898	17	18 <sup>2</sup>	16 <sup>2</sup>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
Auteltek	D	0.24	25,807	34 <sup>2</sup>	32 <sup>2</sup>	33 <sup>2</sup>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
Autoltd	D	11	10	2 <sup>2</sup>	2 <sup>2</sup>	2 <sup>2</sup>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
Avonale	D	0.92252	307	7 <sup>2</sup>	7 <sup>2</sup>	7 <sup>2</sup>	-2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
B&H Grp	D	0.12	15	86	12 <sup>2</sup>	12 <sup>2</sup>	12 <sup>2</sup>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
Bi Int	D	24	275	5 <sup>2</sup>	5 <sup>2</sup>	5 <sup>2</sup>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
Big B	D	0.16	16	189	14	13 <sup>2</sup>	14	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
Blindley W	D	0.08	15	226	15 <sup>2</sup>	15	15 <sup>2</sup>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
Blogen	D	25,13239	36 <sup>2</sup>	34 <sup>2</sup>	34 <sup>2</sup>	35 <sup>2</sup>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
Blouest	D	22,33552	15	14 <sup>2</sup>	14 <sup>2</sup>	14 <sup>2</sup>	-2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
Block Dry	D	1.08	13	239	36 <sup>2</sup>	35 <sup>2</sup>	36 <sup>2</sup>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
BMC Softw	D	23,7721	60 <sup>2</sup>	59 <sup>2</sup>	59 <sup>2</sup>	59 <sup>2</sup>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
Boatmen S	D	1.38	16	184	26 <sup>2</sup>	26 <sup>2</sup>	26 <sup>2</sup>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
Bob Evans	D	0.29	16	303	20 <sup>2</sup>	19 <sup>2</sup>	19 <sup>2</sup>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
Books & B	D	24	29	22 <sup>2</sup>	23 <sup>2</sup>	23 <sup>2</sup>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
Bohart	D	7,8577	7 <sup>2</sup>	6 <sup>2</sup>																						

## **AMEX COMPOSITE PRICES**

4 pm class, January

# AMEX COMPOSITE PRICES

Care Cp	46 3587	14 <sup>1</sup>	12 <sup>1</sup>	13	-1 <sup>2</sup>
Calgene	2.25 3 1100	6 <sup>1</sup>	5 <sup>1</sup>	5 <sup>1</sup>	-1 <sup>2</sup>
Cal Micro	24 1489	32 <sup>1</sup>	31 <sup>1</sup>	31 <sup>1</sup>	-1
Candelal.	17 23	22 <sup>1</sup>	21 <sup>1</sup>	21 <sup>1</sup>	-1 <sup>2</sup>
Cedars	0 178	1 <sup>1</sup>	1 <sup>1</sup>	1 <sup>1</sup>	
Canon Inc	0.53 64	23	77 <sup>1</sup>	77	77 <sup>1</sup>
Concrite	47 38	7 <sup>1</sup>	7	7 <sup>1</sup>	-1 <sup>2</sup>
CarltonCm	0.68 20	10	27 <sup>1</sup>	27 <sup>1</sup>	27 <sup>1</sup>
Cascadia	0.60 184	25	24 <sup>1</sup>	24 <sup>1</sup>	-1 <sup>2</sup>
Casey S	0.08 17	63	14 <sup>1</sup>	14 <sup>1</sup>	14 <sup>1</sup>
Colgate	4 259	6	5 <sup>1</sup>	5 <sup>1</sup>	
CEM Cp	15 43	12 <sup>1</sup>	12 <sup>1</sup>	12 <sup>1</sup>	
Centecor	8 9147	17 <sup>1</sup>	16 <sup>1</sup>	16 <sup>1</sup>	-1 <sup>2</sup>
Centri Fid	1.12 8	60	25 <sup>1</sup>	24 <sup>1</sup>	24 <sup>1</sup>
Centri Spr	15 40	12	11 <sup>1</sup>	11 <sup>1</sup>	
Chandler	11 11	5 <sup>1</sup>	4 <sup>1</sup>	5 <sup>1</sup>	-1 <sup>2</sup>
Chapter 1	0.68 6	815	19 <sup>1</sup>	19 <sup>1</sup>	19 <sup>1</sup>
ChemSh	0.09 11 1077	8 <sup>1</sup>	6 <sup>1</sup>	6 <sup>1</sup>	-1 <sup>2</sup>
ChemFab	16 5	12 <sup>1</sup>	12 <sup>1</sup>	12 <sup>1</sup>	-1 <sup>2</sup>
Chempower	12 2100	3 <sup>1</sup>	3 <sup>1</sup>	3 <sup>1</sup>	
Chips&Te	24 2311	7 <sup>1</sup>	7 <sup>1</sup>	7 <sup>1</sup>	-1 <sup>2</sup>
China Cp	79 4548	65 <sup>1</sup>	84 <sup>1</sup>	65 <sup>1</sup>	-1 <sup>2</sup>
Com Fin	1.28 13	262	52 <sup>1</sup>	51 <sup>1</sup>	
ComInt	0.17 27	47 <sup>1</sup>	36 <sup>1</sup>	34 <sup>1</sup>	-1 <sup>2</sup>
ComLog	1113746	26 <sup>1</sup>	24 <sup>1</sup>	24 <sup>1</sup>	-2
CS Tech	24 253	2 <sup>1</sup>	2 <sup>1</sup>	2 <sup>1</sup>	
CiscoSys	2640010	39 <sup>1</sup>	34 <sup>1</sup>	34 <sup>1</sup>	-1 <sup>2</sup>
Co Banco	1.08 12	121	25 <sup>1</sup>	25	-1 <sup>2</sup>
Coast Hor	11 220	4 <sup>1</sup>	3 <sup>1</sup>	3 <sup>1</sup>	-1 <sup>2</sup>
Cells Dr	73 113	124 <sup>1</sup>	124 <sup>1</sup>	124 <sup>1</sup>	
ClothesIn	77 1164	3 <sup>1</sup>	3 <sup>1</sup>	3 <sup>1</sup>	-1 <sup>2</sup>
CocaColaB	1.00 17	2	27 <sup>1</sup>	27 <sup>1</sup>	27 <sup>1</sup>
Code Engr	63 174	5 <sup>1</sup>	5 <sup>1</sup>	5 <sup>1</sup>	
CodeAlarm	11 9	9	9	9	
Cognex Cp	30 2997	24 <sup>1</sup>	23 <sup>1</sup>	23 <sup>1</sup>	-1 <sup>2</sup>
Cognite	35 125	17 <sup>1</sup>	17 <sup>1</sup>	17 <sup>1</sup>	-1 <sup>2</sup>
- H -					
Harting A	21 61	7	6 <sup>1</sup>	6 <sup>1</sup>	-1 <sup>2</sup>
HarleyDv	0.68 17	2	24 <sup>1</sup>	24 <sup>1</sup>	-1 <sup>2</sup>
Harper Gp	0.22 16	65	16 <sup>2</sup>	16 <sup>2</sup>	-1 <sup>2</sup>
HarrisCp	207	12 <sup>1</sup>	12	12 <sup>1</sup>	-1 <sup>2</sup>
HBO & Co	0.16 43 8368	26	33 <sup>1</sup>	35 <sup>1</sup>	-1 <sup>2</sup>
Healthcar	25 5417	33 <sup>1</sup>	33 <sup>1</sup>	33 <sup>1</sup>	-1 <sup>2</sup>
Healthcare	0.08 17	1822	14 <sup>1</sup>	14 <sup>1</sup>	-1 <sup>2</sup>
Healthdyn	24 940	11 <sup>1</sup>	9 <sup>1</sup>	9 <sup>1</sup>	-1 <sup>2</sup>
Hochinger	0.18 15 3153	10 <sup>1</sup>	10 <sup>1</sup>	10 <sup>1</sup>	-1 <sup>2</sup>
Holding	16 38	8 <sup>1</sup>	8 <sup>1</sup>	8 <sup>1</sup>	-1 <sup>2</sup>
HelenTroy	10 38	18 <sup>1</sup>	18	18	-1 <sup>2</sup>
Henif	0.68 7	4324	124 <sup>1</sup>	12 <sup>1</sup>	-1 <sup>2</sup>
Hogan Sys	0.15 18 1636	7	6 <sup>1</sup>	7	-1 <sup>2</sup>
Hologic	20 74	14 <sup>1</sup>	14	14 <sup>1</sup>	-1 <sup>2</sup>
Homa Berl	0.80 9	5	19 <sup>1</sup>	19 <sup>1</sup>	
Hon Inds	0.44 14	306	26 <sup>1</sup>	24 <sup>1</sup>	25 <sup>1</sup>
Hornbeck	19 71	12 <sup>1</sup>	12 <sup>1</sup>	12 <sup>1</sup>	
HorseflyRes	0.44 33	432	6	5 <sup>1</sup>	5 <sup>1</sup>
Hunt JB	0.20 18	370	17 <sup>1</sup>	17 <sup>1</sup>	17 <sup>1</sup>
Huntington	0.9 1180	18	17 <sup>2</sup>	18	-1 <sup>2</sup>
Hurst Co	0.08 3	4	4	4	-1 <sup>2</sup>
HutchTech	12 348	24 <sup>1</sup>	24 <sup>1</sup>	24 <sup>1</sup>	
Hydro Bio	11 726	4 <sup>1</sup>	4	4 <sup>1</sup>	-1 <sup>2</sup>
- I -					
IFR Sys	61 140	112 <sup>1</sup>	115 <sup>1</sup>	115 <sup>1</sup>	-1 <sup>2</sup>
IM Intel	10 1636	3 <sup>1</sup>	3 <sup>1</sup>	3 <sup>1</sup>	-1 <sup>2</sup>
ImmuCor	41 54	5 <sup>1</sup>	5 <sup>1</sup>	5 <sup>1</sup>	-1 <sup>2</sup>
Immunogen	1 300	2 <sup>1</sup>	2	2 <sup>1</sup>	-1 <sup>2</sup>
Impair Bc	0.40108	103	13	12 <sup>1</sup>	13
Inn Inv	0.24 16	81	12 <sup>1</sup>	12 <sup>1</sup>	12 <sup>1</sup>
- J -					
Nordgatet	28 1414	38	29 <sup>1</sup>	38	
Newport Cp	0.04 23	91	7 <sup>1</sup>	7 <sup>1</sup>	-1 <sup>2</sup>
Noble Drl	30 550	5 <sup>1</sup>	5 <sup>1</sup>	5 <sup>1</sup>	-1 <sup>2</sup>
Nordson	0.64 23	48	57	57	-1 <sup>2</sup>
Nosmar	0.40 18 1910	432	42 <sup>1</sup>	43 <sup>1</sup>	-1 <sup>2</sup>
Nutanix I	11 81	18 <sup>1</sup>	17 <sup>1</sup>	17 <sup>1</sup>	-1 <sup>2</sup>
N Star Un	3 31	4 <sup>1</sup>	4 <sup>1</sup>	4 <sup>1</sup>	-1 <sup>2</sup>
Norden/27	1.04 70	2243	33 <sup>1</sup>	33 <sup>1</sup>	-1 <sup>2</sup>
NW Air	6 2638	18 <sup>1</sup>	18 <sup>1</sup>	18 <sup>1</sup>	-1 <sup>2</sup>
Novell	3224978	18 <sup>1</sup>	18	18 <sup>1</sup>	-1 <sup>2</sup>
Novelus	21 7297	45 <sup>1</sup>	45 <sup>1</sup>	47 <sup>1</sup>	
NPC A	10 44	5 <sup>1</sup>	5 <sup>1</sup>	5 <sup>1</sup>	-1 <sup>2</sup>
NSC Corp	9 20	2 <sup>1</sup>	2 <sup>1</sup>	2 <sup>1</sup>	-1 <sup>2</sup>
- U -					
US Hitler	0.94 18 7829	44	42 <sup>1</sup>	43 <sup>1</sup>	-1 <sup>2</sup>
Unilab	25 8707	3 <sup>1</sup>	3 <sup>1</sup>	3 <sup>1</sup>	-1 <sup>2</sup>
UClassGo	1.02 12	39	15 <sup>1</sup>	15 <sup>1</sup>	15 <sup>1</sup>
US Tat	2.00 14	402	66 <sup>1</sup>	66 <sup>1</sup>	66 <sup>1</sup>
United St	0.40 15	20	14	13 <sup>1</sup>	13 <sup>1</sup>
Unitog	0.08 17	21	18 <sup>1</sup>	18 <sup>1</sup>	18 <sup>1</sup>
Unith	1.00 16 5654	48	48 <sup>1</sup>	47 <sup>1</sup>	-1 <sup>2</sup>
US Banc	0.00 17 18168	24 <sup>1</sup>	23 <sup>1</sup>	24 <sup>1</sup>	-1 <sup>2</sup>
US Envry	6 12	4 <sup>1</sup>	4 <sup>1</sup>	4 <sup>1</sup>	-1 <sup>2</sup>
UST Corp	1.12 40	185	11 <sup>1</sup>	10 <sup>1</sup>	10 <sup>1</sup>
Utah Med	14 408	9 <sup>1</sup>	9 <sup>1</sup>	9 <sup>1</sup>	
Utad Telev	17 72	54 <sup>1</sup>	53 <sup>1</sup>	54 <sup>1</sup>	-1 <sup>2</sup>
Uth	21 87	3 <sup>1</sup>	3 <sup>1</sup>	3 <sup>1</sup>	
- V -					
Vermont	0.30 27	214	16 <sup>1</sup>	16 <sup>1</sup>	16 <sup>1</sup>
Verso Cell	1.00 16	95 <sup>1</sup>	95 <sup>1</sup>	95 <sup>1</sup>	-1 <sup>2</sup>

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## AMERICA

# US stocks improve as rate fears recede

## Wall Street

US shares began the day in negative territory, but bounced solidly yesterday by late morning in a wave of program buying and reduced fears of an aggressive interest rate increase next week, writes Lisa Brunster in New York.

By 1 pm, the Dow Jones Industrial Average was up 22.61 at 3,885.57. The Standard & Poor's 500 gained 1.83 at 468.88 and the American Stock Exchange composite rose 1.49 to 433.89.

The Nasdaq composite slipped 0.87 to 762.33. Volume on the NYSE was active at 15m shares.

In testimony before two Congressional committees, Mr Alan Greenspan, chairman of the Federal Reserve, would not comment on whether the central bank would put up interest rates next week at its Open Market Committee meeting.

He cited both the low level of consumer prices during 1994 and described the economy as healthy, leading some to speculate that the Fed might not tighten monetary policy at the meeting.

Consensus held, however, that the central bank would raise rates by 50 basis points to 6 per cent, and Mr Greenspan also said that the Fed would carefully monitor inflationary pressures seen in data such as low unemployment and high capacity utilisation figures.

Also driving the market was another wave of corporate earnings reports.

Although Compaq Computer reported a 55 per cent increase in earnings for the fourth quarter of last year, the shares lost

nearly 13 per cent of their value as the company said it did not expect an earnings increase for the first quarter of this year. At midday, the shares were changing hands at \$37, down 85¢ from Tuesday's close.

Pessimism about Compaq's earnings spread to other high technology issues yesterday and was a major reason the Nasdaq was the only major equity index to post a decline.

Apple Computer, which trades on the Nasdaq, was down 1% at \$40. Intel lost 5¢ at \$71.14, Sun Microsystems shed 5¢ at \$32.14 and Cyrix dropped 5¢ at \$24.50.

Microsoft gained 5¢ at \$62.43, and Lotus Development, which had dropped from a January 12 high of \$44.44, surpassed that level yesterday by gaining \$3.01 at \$44.45 in spite of reporting earnings below expectations.

Bausch & Lomb, the lens and eye-care company, dropped \$1 at \$38.44 after reporting a loss for the fourth quarter. The company also said it was the subject of an investigation by the Securities and Exchange Commission about its exchange listing operations.

Philip Morris bounced back from a difficult 1993 to report a 17.4 per cent increase in net earnings for 1994, generally in line with expectations. Shares in the food and consumer goods conglomerate rose 5¢ at \$58.75 on the news.

## Mexico

Mexico was unable to maintain early momentum and shares fell 1.3 per cent in late morning trading that was clouded by announcements of some poor 1994 corporate results. The IPC index lost 2.79 to 2,067.71 in low volume of 24.6m shares.

Earlier in the day, Alfa and Hylsamex, the steelmakers, and Sigma, the food processor, had reported sharp falls in 1994 earnings.

The TSE 300 composite index was ahead 0.83 at 4,086.56 in volume of 22.0m shares val-

ued at C\$318.2m. Declining issues edged out advances by 243 to 241, with 258 issues remaining unchanged.

Traders said that equities were helped by good corporate earnings, strength in Canadian bonds and higher Wall Street stocks.

Three of the market's 14 sub-indices posted losses at noon. The precious metals group weakened 4.04 to 9,002.31, followed by declines in transportation and conglomerates.

Advances were led by utilities, forestry, energy and banking sectors.

Slocan Forest Products moved forward 0.94 to C\$1.74 on 13,722 shares after Canfor Corp's hostile takeover bid failed to get the minimum 51 per cent of Slocan's shares.

Canfor, which has extended the bid, was off C\$0.01 at C\$1.71 in light volume.

HCE gained 0.5¢ at C\$4.67 on 835,026 shares ahead of its fourth-quarter results expected later.

Fletcher Challenge Canada class A topped the TSF's most active list, firming 0.5¢ to C\$1.86 on 1.4m shares.

Hochfier also announced late

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Toronto stocks were higher at midday, with most sectors posting gains in active trading.

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